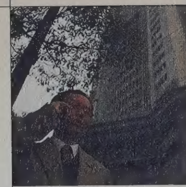
ANNUAL REPORT

Helping to bring people together

1997



TIW

Corporate Profile

Telesystem International Wireless Inc., a Canadian company, owns and operates wireless telecommunications networks in several countries in Europe, Asia and Latin America.

TIW has digital cellular operations in Romania, Brazil (Central-West region, which includes Brasilia, Brazil's capital), China (Province of Hunan) and India (State of Rajasthan). These services were launched commercially during 1997 and had more than 140,000 subscribers at year-end.

TIW is the largest specialized mobile radio (SMR) operator in Europe, with approximately 160,000 subscribers in France, Germany, Spain and the United Kingdom. The Company is deploying a digital network using the European standard for digital SMR (TETRA), and will provide this service to mobile work groups across Europe. In February 1998, it announced a US$325 million investment program in the U.K. to build the world's first public national digital SMR network based on TETRA.

The Company also provides nationwide paging services in Mexico and the Netherlands. In Mexico, the number of subscribers has increased approximately threefold, to more than 100,000, since TIW's initial investment in 1994. In the Netherlands, TIW operates one of the two POCSAG networks, and has over 100,000 customers.

SIGNIFICANT ACHIEVEMENTS

Operational

TIW launched commercial digital cellular services in Romania, China (city of Changsha), India (four cities in the State of Rajasthan) and Brazil (city of Brasília).

Through internal growth and a series of acquisitions, TIW established itself as the European leader in specialized mobile radio services and laid the foundation for building and operating a pan-European digital SMR network.

Paging services achieved strong subscriber growth.

INITIAL PUBLIC OFFERING	13,000,000 SHARES
NET PROCEEDS	$118,500,000
NET PROCEEDS OF PRIVATE OFFERINGS	$288,200,000

Financial

TIW established a solid financial base with three major financings:

- an Initial Public Offering of 13 million shares at C$13.50 for gross proceeds of C$175.5 million (net proceeds of $118.5 million).*

- two issues of Senior Discount Notes for net proceeds of $288.2 million.

Organizational

TIW added depth to its operating and corporate teams, strengthening the organizational foundation for managing current operations as well as its capacity to seize new opportunities.

**All references to "dollars" and "$" refer to U.S. dollars, unless otherwise expressly stated.*

Bruno Ducharme
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Charles Sirois
CHAIRMAN OF THE BOARD

Chairman's Message to Shareholders

TIW was organized in 1994 to pursue international opportunities in the wireless telecommunications services market. Under strong leadership, it has rapidly established itself as one of the most successful operators in a fast-growing industry.

The Company achieved critical mass in 1997 with a particularly impressive string of accomplishments that brought to light its ability to create value. This was clearly recognized in the financial markets as more than $400 million in equity and debt was raised during the year through an Initial Public Offering of shares and two issues of Senior Discount Notes. As at December 31, the market capitalization of TIW was in excess of $900 million.

Several factors have enabled TIW to be successful, not least of which is the contribution of its partners. Among them are the original sponsors of the Company who provided financial support and operational assistance in the initial years. TIW has since joined forces with other business and financial partners to seize specific opportunities and draw on their knowledge of local markets. Fruitful partnerships are nurtured and additional alliances are continuously explored to leverage the Company's own capabilities and reduce business risk in new ventures.

The Company is able to maximize the benefits of partnerships by creating an environment in which its employees can thrive. This means that employees interacting with partners are empowered to be innovative, to adapt quickly and to respect the needs of all parties in a business relationship.

Outlook

The 1997 achievements have set the stage for even more exciting developments in the years ahead. TIW will focus intensely on value creation through its current operations and new opportunities. The superior subscriber growth last year demonstrated that existing operations have significant growth potential. Incremental value will be created by taking advantage of opportunities to enter new growth markets on attractive terms.

I would like to take this opportunity to acknowledge the contribution of our partners and in particular our strategic allies in the cellular operations that launched commercial services in 1997. I would also like to thank the members of the Board of Directors for their support, and congratulate the TIW management team and employees for the noteworthy successes of 1997.

Charles Sirois

CHAIRMAN OF THE BOARD

Message from the President and Chief Executive Officer

During 1997, TIW clearly established its position as a global wireless operator by launching commercial digital cellular services in Romania, China, India and Brazil. We also became the largest specialized mobile radio services operator in Europe and the leader in the race to build an advanced digital SMR network.

Through these and other accomplishments, we demonstrated that the expertise and adaptability of our dynamic, multicultural team and our entrepreneurial approach more than compensate for our relatively small size. Indeed, we showed our partners, customers and host governments that our focus on action, combined with a deep respect for local conditions, is a powerful competitive asset for achieving our ambition to be a premier international wireless company.

1997 Highlights

We are pleased to report that all targets and objectives were met or exceeded in 1997. Significant milestones were achieved in operations, on the financial front and, equally important, in building a skilled and flexible organization for growth.

Operational

Cellular

TIW achieved one of the fastest start-ups of GSM cellular services on record by launching commercial services in Romania just 18 weeks after obtaining a license. The remarkable speed of execution was matched by its success, with some 15,000 subscribers within one month and over 117,000 by year-end. This feat was duplicated later in the year in Brasília, the federal capital of Brazil, where service was launched on November 28 within 22 weeks of the license award. The service attracted 15,600 subscribers by December 31, 1997.

In China and India, we introduced cellular services on a limited scale in anticipation of full commercial deployment as market demand expands. Our investment to date has been relatively small in relation to the potential of our licensed areas, and future commitments will be in line with actual subscriber growth and regulatory developments. Both markets represent significant growth opportunities on a longer-term basis.

Specialized mobile radio

Following a series of acquisitions, we laid the foundation for building and operating an advanced pan-European digital SMR network. TIW has the largest SMR footprint in Europe with 175 million population equivalents (POPs) and 158,000 subscribers. This includes the acquisitions, which closed in February 1998, of National Band Three Limited (NB3) in the United Kingdom and Terrafon Bündelfunk (Terrafon) in Germany. An experienced management team has been assembled to develop the full potential of mobile networking in Europe.

Paging

High subscriber growth was achieved by our operations in Mexico and the Netherlands. TIW substantially increased its ownership position in both companies. Mexican operations attained profitability.

Financial

On the strength of earlier delivery of milestones, the performance of all three services and the Company's growth potential, we completed an outstanding financing program during the year.

Our Initial Public Offering was well received, generating net proceeds of $118.5 million. TIW's shares ended the year at more than 50% above the issue price. We also closed two issues of Senior Discount Notes for net proceeds of $191.9 million at 13¼% and $96.3 million at 10½%.

These financings created a solid financial foundation for pursuing our growth strategy and established our credibility in financial markets.

Organizational

On the organizational front, experienced individuals in key disciplines joined the senior management team, adding complementary skills and depth. Solid teams were built to provide technical, marketing and operational support to the rapidly expanding cellular and SMR activities. We have recruited committed individuals with varied expertise and cultural backgrounds. Our team is young, ambitious, energetic and customer-driven. Reflecting principally the launch of cellular services, total employment in subsidiaries and joint ventures increased to more than 3,000.

1998 Focus

For 1998, TIW aims to maintain the momentum built in 1997 and to enter a new stage of growth.

Cellular

The focus in cellular will be on continued subscriber growth in Romania and Brazil, in conjunction with the implementation of best operating practices. A key goal is to become operating-cash-flow-positive before year-end.

We will continue to evaluate new license opportunities. In cooperation with our joint venture partners in China and India, we will continue to extend coverage of our licensed areas as justified by subscriber growth where service is already available.

Specialized mobile radio

The year 1998 will be pivotal in the pursuit of our mission of becoming a European leader in mobile networking services, the new generation of SMR. We will select equipment suppliers, begin network construction and complete the groundwork for a full commercial launch of digital SMR services in the U.K. in the first quarter of 1999.

As the digital SMR strategy takes shape, we will continue to strengthen the current analog operations. Our objective is to be cash-flow-positive in the analog operations in 1998 by generating efficiencies and operating synergies following recent acquisitions, as well as through market growth.

We believe digital SMR is an exciting opportunity based on superior functionality that offers unique, feature-rich services targeted for a much broader market than analog SMR.

Paging

Our operations have quickly achieved a critical mass of subscribers and, in 1998, we will concentrate on improving profitability in Mexico. In the Netherlands, we are on a turnaround mission after having assumed management control. While concentrating on the financial performance of both operations, we will actively explore opportunities to leverage our established positions in new markets.

Values and Success Factors

We have built TIW as a knowledge-based organization. Our company relies on knowledge to identify and seize the right opportunities. We move quickly, on our own or in partnership, to achieve strategic market entry at low cost and to launch and operate commercial communications services. Our success is driven by the calibre of our people, effective access to the public capital markets, the contribution of our partners as well as the diversification of our operations in several geographic markets and wireless technologies. These are the key characteristics that set TIW apart in its industry.

In closing, I would like to acknowledge the contribution of our business partners and their employees toward the successes of 1997. I also salute all of the members of the TIW team around the world and in our Montreal headquarters for their incredible energy and devotion. Their accomplishments in 1997 were exceptional, a true testament to the benefits of knowledge sharing, teamwork and determination. Through continued mutual effort, we should achieve great things in 1998 and in the years to come.

Bruno Ducharme

Bruno Ducharme

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Current Operations
LATIN AMERICA
107 MILLION LICENSED POPS
113,700 SUBSCRIBERS
12% OF INVESTED CAPITAL
1,360 EMPLOYEES

EUROPE

214 MILLION LICENSED POPS

388,000 SUBSCRIBERS

76% OF INVESTED CAPITAL

1,173 EMPLOYEES

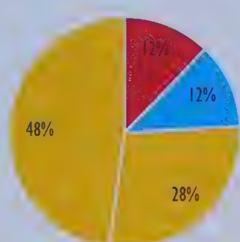
ASIA

113 MILLION LICENSED POPS

10,400 SUBSCRIBERS

12% OF INVESTED CAPITAL

197 EMPLOYEES



Investments by Geographical Segment

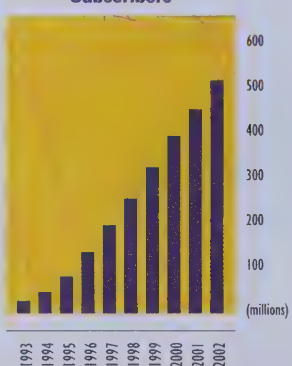
76%	12%	12%
EUROPE	ASIA	LATIN AMERICA

48%	28%
ROMANIA	WESTERN EUROPE

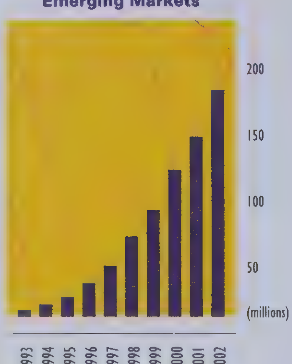
CELLULAR SERVICES

TIW launched commercial digital cellular services in Romania, China, India and Brazil in 1997. The aggregate number of subscribers grew to 143,000 by year-end.

Worldwide Cellular Subscribers



Cellular Subscribers in Emerging Markets



1993	2002
11% OF WORLD MARKET	32% OF WORLD MARKET

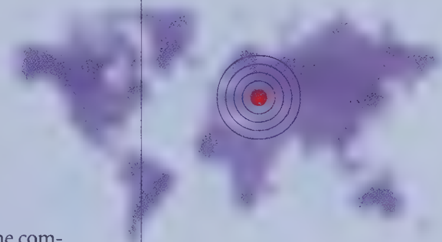
Market Overview

The key driver of cellular services in low-teledensity markets is demand for dial tone. Customers want immediate access to basic telephony services, with reliability and affordability being important criteria. TIW meets these market needs by efficiently implementing proven state-of-the-art digital wireless technology.

In each country where TIW operates, there is a significant pent-up demand for telephony, healthy economic growth potential and, in most cases, long waiting periods for wireline services.

TIW has been able to minimize the cost of entry into markets with attractive prospects. As demonstrated to date in Romania, China, India and Brazil, the Company has gained access to large markets with a relatively low investment per country. Teledensity in markets currently served by TIW ranges from 1.5% in India to 14% in Romania. TIW has thus positioned itself for significant growth in a competitive industry.

Source: The Strategis Group, *World Cellular and PCS Markets 1997*



Romania

TIW achieved one of the fastest start-ups of GSM digital cellular services on record with the commercial launch in Romania on April 15, 1997, just 18 weeks after obtaining its license. The speed of execution was matched by its success as some 15,000 subscribers signed up within the first month.

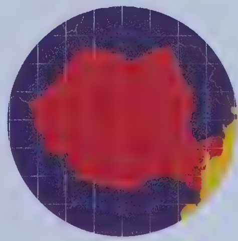
Two GSM cellular telecommunications licenses were issued in Romania. By being first in the market with reliable, high-quality dial tone, TIW attracted subscribers who want to be associated with the leader. This head start over the competing operator was a determining factor in establishing CONNEX GSM, the brand name of TIW's cellular service, as the benchmark in Romania.

The CONNEX GSM management team set up a strong marketing, sales and customer-service organization to execute the launch and support a growing subscriber base. Service was introduced first in Bucharest, the capital, followed by other cities as the network buildout progressed.

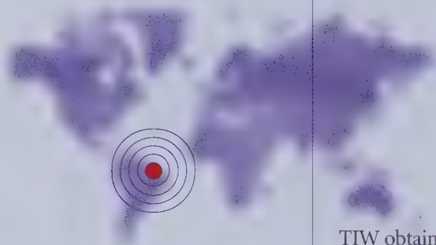
Aggressive marketing initiatives implemented after the launch accelerated the activation rate and helped bring the total number of subscribers to 117,000 at year-end. This exceeded the Company's most optimistic projections, a fact that augurs well for sustained subscriber growth in 1998 and beyond.

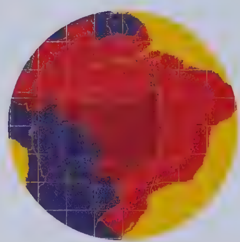
By the end of 1997, the CONNEX GSM network extended beyond Bucharest to cover some 78 cities and 50% of the population. It should reach 135 cities and 80% of the population by the end of 1998.

TIW operates in Romania through MobiFon, in which it holds a 62% ownership interest. During the year, MobiFon obtained a $190 million loan facility arranged and financed by the European Bank for Reconstruction and Development and other financial institutions. This was the first major syndicated loan for a private Romanian company, establishing a standard for future financings in that country.



Romania
23 MILLION LICENSED POPS
117,000 SUBSCRIBERS
62% OWNERSHIP
14.7% TELEDENSITY
1.0% CELLULAR PENETRATION





Brazil
(Central-West Region)

14 MILLION LICENSED POPS

15,600 SUBSCRIBERS

19% OWNERSHIP

14.1% TELEDENSITY

2.1% CELLULAR PENETRATION

AMERICEL

HUNAN HUAJIA TELECOMMUNICATION ENGINEERING CO.LTD.

OASIS CELLULAR

Brazil

TIW obtained a cellular license for the Central-West region of Brazil during 1997 as part of a consortium of Canadian and Brazilian partners. As in Romania, commercial services were introduced in less than five months in Brasília, the federal capital city and largest urban centre in the region. Reflecting the quality of execution and the high level of pent-up demand, the service attracted 15,600 subscribers in only five weeks.

While the permanent management team was being assembled, TIW and its joint operating partner assigned experts to begin technical planning and groundwork for marketing and sales. This diligence made it possible to rapidly build the network in Brasília and launch commercial services.

In early 1998, coverage was extended to Goiânia, the second largest city in the region, providing additional stimulus to subscriber growth. The network buildout, using TDMA digital technology, should reach all of the major cities by year-end 1998.

TIW controls a 19% economic interest in the Americel consortium and is joint operator of the network.

China and India

TIW introduced commercial digital cellular services using GSM technology in China and India during 1997. In both countries, services were launched on a limited basis in advance of larger-scale deployment.

The Company entered these markets with a long-term view based on the significant potential of its licensed areas. The longer time frame expected for ramping up operations is reflected in the relatively low level of infrastructure investment to date. In both countries, additional investments will be made in step with the evolution of the existing business and the prospects for future subscriber growth. The license in India was acquired at a relatively low cost per POP.

In China, commercial services were launched in Changsha, the capital city of the Province of Hunan, with a population of 1.5 million people, after obtaining interconnection with the monopoly wireline operator. At year-end, the service had 4,300 subscribers.

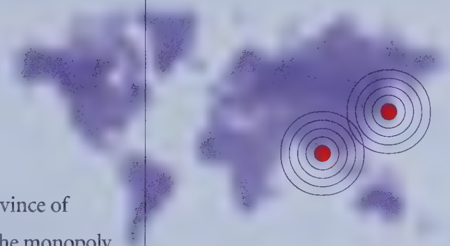
Engineering has been completed for extending the network to Zhuzhou and Xiangtan, which, along with Changsha, form the Golden Triangle region of Hunan, with a combined population of 12 million. We expect the deployment to begin in 1998.

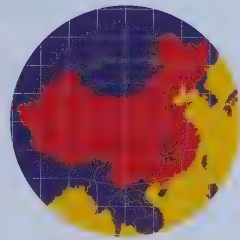
In India, TIW and its partners set up a high-quality GSM network that covered five of the largest cities in the State of Rajasthan and attracted 6,100 subscribers by year-end. One of the challenges for the joint venture, and indeed for all cellular operators in India, is to stimulate market demand without undue tariff erosion, while maintaining low operating costs.

Hexacom is currently analyzing different deployment options for the expansion of services. The final selection of alternatives will depend on the evolution of market demand and segmentation.

1998 Objectives

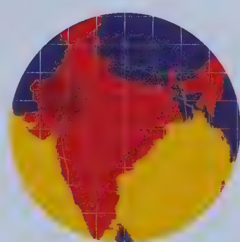
The Company's 1998 objective in Romania is to sustain the pace of subscriber growth while pursuing network construction. The goal in Brazil is to build momentum in customer growth after an encouraging service launch at the end of 1997. In China and India, TIW will continue to work with its partners to speed up subscriber growth while aligning its investment in network expansion to revenue generation and, in the case of China, to regulatory developments.





China (Hunan)

- 64 MILLION LICENSED POPS
- 4,300 SUBSCRIBERS
- 49% OWNERSHIP
- 7.8% TELEDENSITY
- 0.8% CELLULAR PENETRATION



India (Rajasthan)

- 49 MILLION LICENSED POPS
- 6,100 SUBSCRIBERS
- 33.8% OWNERSHIP
- 1.5% TELEDENSITY
- 0.1% CELLULAR PENETRATION

Cellular Partners

ROMANIA	AirTouch Europe | ANA Electronic S.R.L. | Logic Telecom S.A. | R.A. Posta Romana Societatea de Instalatii de Semnalizari si Automatizari Feroviare S.A.
CHINA	Changsha Electron Industries China Communication System Corporation Limited (ChinaCom)
INDIA	Shyam Telecom Ltd. | Telecommunications Consultants India Ltd.
BRAZIL	Bell Canada International Inc. | Brazilian Financial Institutions | Citibank N.A.

SMR SERVICES

TIW is the largest operator of specialized mobile radio services in Europe, with 158,000 subscribers in four countries and licenses covering 175 million POPs.

Market Overview

SMR services are designed primarily to meet the unique telecommunications needs of mobile work groups. As a result of significant growth, the mobile networking sector is emerging as a distinct market segment of the wireless communications industry.

Mobile work groups are business users with important field operations and mobile personnel who need to communicate with one another, either on a one-to-one or one-to-many basis. Users typically include field personnel in the transportation, utilities, construction, wholesale/retail and health care industries.

In North America, the public and private work group market is already well developed, with an estimated 21 million users. The penetration rate in the United States, where specialized services addressing this market were introduced in the early 1980s, is estimated at 8%. Subscribers for public SMR services have been growing at an average compound annual rate of 17% over the past decade. In the United Kingdom, France and Germany, the public and private subscriber base is estimated at 2.6 million, representing a penetration rate of 1.3%. The public mobile group market in these countries is still underdeveloped compared to the U.S., although it grew at an average compound annual rate of 46% from 1991 to 1996.

The introduction of digital SMR services provides public SMR operators with greatly enhanced capabilities to offer tailored business solutions to mobile work groups and to broaden the range of potential customers for these services. Traditionally associated with work groups using vehicles, SMR now has functionalities that satisfy mobile communications needs throughout the service sector of the economy to facilitate tasks requiring mobile networking. Whenever projects are undertaken by teams in different locations, digital SMR provides tailored networking solutions to increase communication efficiency. In the U.S., customer response to the new generation of digital SMR services has been very favourable, indicating strong growth potential for the mobile work group market in Europe.

SMR Operations

Following a series of acquisitions in 1997, the latest of which closed in February 1998, TIW now has the largest SMR footprint in Europe with 175 million licensed POPs and is the largest operator with 158,000 subscribers. The present subscriber base is an important part of the foundation for building and operating an advanced digital pan-European network using the TETRA standard. The Company expects that early users of digital SMR will come in part from the migration of existing SMR customers to the enhanced services.

Recognizing the growth potential of the European mobile work group market at an early stage, TIW made its initial investments in SMR operators in France and Germany in 1992, followed by Spain in 1993. It entered the United Kingdom market in 1994. Through these and subsequent investments, the Company has established a solid market and operating position at low cost while also securing digital SMR licenses and rights in two of the largest European countries.

The Company has put in place an organizational structure and a strong management team for the deployment of pan-European digital SMR services. The team comprises managers, marketing and technical professionals with extensive experience in telecommunications and wireless services in Europe and North America.

In February 1998, TIW announced the creation of Dolphin Corporation Ltd (Dolphin) to hold its ownership interets in the U.K., France, Germany and Spain. TIW's European SMR management team and organization will be part of Dolphin.

Among the Highlights of 1997

United Kingdom—TIW significantly expanded its SMR position in the U.K. with the acquisition of NB3, the country's largest SMR operator, from U.S.-based Geotek Communications Inc. Announced in December 1997, the transaction closed in early 1998 following regulatory approvals, adding 65,000 subscribers to the Company's existing base of 16,000 customers. The Company has also obtained a public telecommunications operator (PTO) license, under which it is granted rights in connection with the installation of equipment on public and private land. This license enhances its ability to expedite network buildout, share radio sites and conclude interconnection agreements with other operators.

Pan-European SMR Overview

SUBSCRIBERS

U.K.	81,000
GERMANY	57,000
FRANCE	15,000
SPAIN	5,000
TOTAL	158,000

LICENSED POPS (millions)

U.K.	58
GERMANY	60
FRANCE	43
SPAIN	14
TOTAL	175

dolphin

France—TIW acquired several regional SMR operators to extend its license coverage to 75% of the population, while reinforcing the position of Régiocom as the second largest SMR operator in the country. The Company holds 67.8% of the voting equity in Régiocom. An application was filed for a national digital license and Régiocom is hopeful of obtaining approval from French authorities based on its market position and demonstrated ability to meet service requirements.

Germany—The Company is the second largest SMR operator, with licenses covering 75% of the German population. In January 1997, TIW acquired a 25% interest in RegioKom, a multi-regional public SMR operator with 17,000 subscribers, and progressively increased its interest to 36.4% by January 1998. RegioKom later acquired Terrafon, which has more than 40,000 subscribers, and TIW concurrently raised its ownership interest in RegioKom to 62%. RegioKom and Terrafon hold licenses that authorize both analog and digital SMR services.

Spain—TIW holds from 13% to 19% equity interests in three SMR operations that cover Madrid, Valencia and Barcelona, three of the largest Spanish business centres.

1998 Objectives

The year 1998 will be pivotal for TIW in the pursuit of its mission to build a differentiated pan-European digital mobile communications network. The Company will consolidate its acquisitions and complete the groundwork for a soft launch in the U.K. by the end of the year. TIW will also develop an integrated marketing and distribution plan for digital SMR services under the Dolphin brand name. The Company will implement its network rollout beginning with the United Kingdom in mid-1998. As the digital SMR strategy is implemented, the Company will continue to strengthen its analog operations.

Entry Cost per POP

TYPICAL PCS (U.S.)	DIGITAL SMR (EUROPE)
$15 LICENSE FEE	NO LICENSE FEE
$15–25 NETWORK BUILDOUT	$3–4 NETWORK BUILDOUT

Comparison of TETRA and GSM Functionalities

	TETRA	GSM
MOBILE TELEPHONY	•	•
VOICE MAIL	•	•
SHORT MESSAGING	•	•
CIRCUIT MODE DATA	•	•
SMALL, HANDPORTABLE TERMINAL	•	•
GROUP CALL	•	
INSTANT PERSON-TO-PERSON ACCESS	•	
PACKET DATA TRANSMISSION (28.8 KBPS)	•	
VIRTUAL PRIVATE NETWORK SERVICES	•	
PAN-EUROPEAN INTEGRATED NETWORKING	•	
DIRECT MODE (WALKIE-TALKIE)	•	
MESSAGE BROADCASTING	•	

Digital SMR: Superior Technology

TIW has selected the TErrestrial Trunked RAdio (TETRA) standard adopted in Europe as its technology for digital SMR services. TETRA is an integrated voice and data wireless protocol with superior service features compared to both analog SMR and digital cellular telephony.

In addition to traditional dispatch services (push-to-talk), TETRA provides customers with all the digital cellular features such as encrypted telephony communications, caller ID, call forward and call barring. With data transmission capabilities usually associated with wireline networks, including packet data, TETRA can also support efficiently and economically a large span of applications such as vehicle location, paging services, fax, and image and video transmission.

Another significant advantage of TETRA is that it allows public operators to accommodate Virtual Private Networks (VPN), enabling current private analog systems to migrate to more efficient digital services while retaining essential custom features. Within each VPN, business subscribers can program, on demand and in real time, who is on the network, where users get coverage and which services and features they can use. Moreover, the cost of the service is based on how a particular work group uses the service, meaning that customers pay only for the features they use.

These characteristics will allow customers to integrate remote and roving resources with corporate data networks and information systems, a concept that we term "mobile networking."

TETRA is an open protocol, developed and supported by the European Telecommunications Standards Institute, the organization that developed the GSM digital standard for cellular communications. It is supported by major equipment manufacturers and widely accepted throughout Europe. TETRA-based digital SMR networks are currently being rolled out or are operational for different types of private users such as public safety organizations, power utilities and public transportation operators.

TIW operates paging services in Mexico and the Netherlands with 98,100 and 113,000 subscribers, respectively.

Market Overview

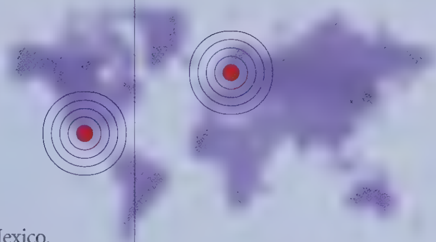
The attractiveness of paging has traditionally been its lower cost. With two-way messaging made possible by digital technology, and expanded geographic coverage through roaming agreements based on common standards, paging is entering a new period of growth. Efficient paging networks can be built and deployed at a relatively small capital cost, thereby limiting business risk. Through segmentation, innovative marketing and targeted pricing, a critical mass of subscribers can be recruited with low selling costs. As a result, skilled operators can achieve positive cash flow and profitability in a much shorter time frame than is required for other wireless technologies.

TIW invested in paging services in 1994 through partnerships in Mexico and the Netherlands. Since then, the value of its modest investment has appreciated significantly as a result of excellent subscriber growth and the acquisition of national licenses. Operations in both countries have been built into solid platforms for participating in future paging opportunities in Latin America and Europe.

call max

DIGITEL

Enlaces Radiofónicos S.A.



Mexico

With its local partner, TIW has established Digitel as one of the leading paging brands in Mexico. Under its buildout plan, the company will be operational in 21 of Mexico's largest cities by mid-1998, meeting the conditions of its national license.

TIW has contributed more effective marketing and stricter financial controls to the operation, resulting in subscriber growth of 33% in 1997 to 98,100 at year-end. EBITDA increased substantially and the Company recorded a net income for the first time despite a very competitive market environment.

TIW entered the Mexican market in 1994 by acquiring an interest in Enlaces Radiofónicos S.A. and, in 1997, exercised an option to increase its interest to 49% of the voting equity.

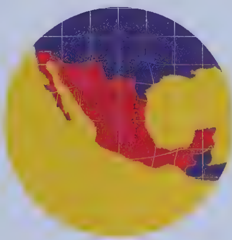
Netherlands

TIW formed CallMax in the Netherlands in 1994 and received a competitive license for analog paging services under the Maxer name in the same year. Commercial services began in January 1996, with the number of active subscribers reaching 113,000 by December 31, 1997.

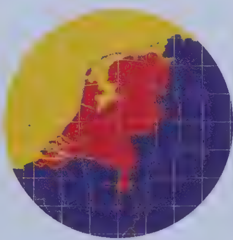
In the fourth quarter of 1997, TIW increased its ownership interest in CallMax to 60% and appointed a new management team. The Company made a downward revision to its subscriber base to exclude subscribers who were inactive for more than three months.

1998 Objectives

The Company's objective is to optimize its paging investments in Mexico and the Netherlands through subscriber growth and a cash-flow-positive position.



Mexico
93 MILLION LICENSED POPS
98,100 SUBSCRIBERS
49% OWNERSHIP



The Netherlands
16 MILLION LICENSED POPS
113,000 SUBSCRIBERS
60% OWNERSHIP

Paging Partner

MEXICO GALINDO FAMILY

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis is intended to assist in the understanding and assessment of significant changes and trends related to the results of operations and financial condition of Telesystem International Wireless Inc., together with its subsidiaries and other investees (collectively, the "Company" or "TIW"). This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying notes. All references to "dollars" and "$" refer to U.S. dollars, unless otherwise stated.

All financial data and discussion herein are based upon financial statements prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). For a discussion of the principal differences between Canadian GAAP and accounting principles generally accepted in the United States ("U.S. GAAP"), see Note 15 to the consolidated financial statements of the Company.

In accordance with Canadian GAAP, the Company consolidates revenues and expenses of each subsidiary in which it has a controlling interest. Investments which are jointly controlled are reported using the proportionate consolidation method. Under this method, the Company's proportionate share of the assets, liabilities, income and expenses of the joint ventures are consolidated in its financial statements. U.S. GAAP requires consolidation of subsidiaries controlled by it and the equity method of accounting for joint ventures and investees in which it has significant influence, but not a controlling interest. Net income under either presentation is the same.

Overview

The Company develops, owns and operates wireless telecommunications networks and provides telecommunications services, including cellular telephony, specialized mobile radio ("SMR") and paging, in several countries in Europe, Asia and Latin America. The Company has interests in ten countries and its licenses entitle it to serve geographic areas that include approximately 433 million population equivalents ("POPs").

Corporate reorganization and Initial Public Offering

The Company was incorporated on September 9, 1996, with a nominal capitalization. Prior to May 9, 1997, the Company's businesses were conducted through Telesystem International Wireless Corporation N.V. ("TIWC"). On May 9, 1997, pursuant to a Securities Assignment and Exchange Agreement with all existing shareholders of TIWC, the Company issued 48,742,187 Subordinate Voting Shares and 3,257,813 Multiple Voting Shares in exchange for a 100% ownership in TIWC. Accordingly, the Company's consolidated financial statements reflect the financial condition and the results of operations as if it had always carried on the business of TIWC. On May, 9, 1997, the Company made an Initial Public Offering (the "IPO"), issuing 13,000,000 Subordinate Voting Shares, in the Canadian market, for aggregate net proceeds of $118.5 million.

Operations

The Company's cellular operations are located in (i) Romania; (ii) the Province of Hunan, China; (iii) the State of Rajasthan, India; and (iv) the Central-West region of Brazil, which includes the capital city, Brasília. The Company owns 62% of a company that owns a national GSM cellular license in Romania covering a population of 22.7 million, 49% of a joint-venture company in Hunan with the right to provide telecommunications services to a population of

63.5 million, 33.8% of a company with a license to provide GSM-based cellular services in Rajasthan with a population of 48.6 million and 15.2% of a company in Brazil with a license to provide B-Band cellular services in the Central-West region of Brazil, with a population of 13.3 million. The Company's initial investments in Romania, China, India and Brazil were made in November 1996, December 1995, April 1996 and July 1997, respectively. The Company's network in Romania was operational as of March 1, 1997, and commercial services were launched on April 15, 1997. Commercial operations were launched in India in June 1997 and in Brazil in December 1997. In China, the Company has been providing limited commercial service in the city of Changsha since May 1997 and expects that commercial services for the "Golden Triangle," consisting of the cities of Changsha, Zhuzhou and Xiangtan, will be launched by the end of 1998.

The Company's SMR operations are located in the United Kingdom, France, Germany and Spain. The Company's initial investments in SMR operations began in 1992 when it acquired minority interests in regional network operators in the south of France. Since that time, the Company has acquired additional SMR operations in the United Kingdom, France, Germany and Spain. In early 1998, the Company acquired National Band Three Limited ("NB3") in the United Kingdom and Terrafon Bündelfunk ("Terrafon") in Germany, two major SMR network operators. Including its recent acquisitions, the Company now offers analog SMR services in the United Kingdom, France, Germany and Spain with licensed areas covering 100%, 75%, 75% and 34% of the populations, respectively, representing a total of approximately 175 million licensed POPs. The Company is now the largest provider of SMR services in the European market with approximately 158,000 subscribers, including approximately 105,000 subscribers for NB3 and Terrafon.

The Company's paging operations are located in Mexico and the Netherlands with licenses covering a total of approximately 109 million POPs. The Company owns 49% of the second largest paging operator in Mexico. The Company's initial investment in the Mexican paging operations was made in June 1994. The Company also owns 60% of a company with a national paging license in the Netherlands. Commercial service in the Netherlands was launched in December 1995.

Composition of operating revenues and expenses

Until March 31, 1997, substantially all of the Company's revenues consisted of revenues generated by its analog SMR and paging operations. No significant revenues were generated by cellular operations before April 1997.

Operating revenues include cellular, analog SMR and paging service revenues, as well as equipment revenues. Cellular service revenues primarily consist of recurring fixed access charges, one-time connection fees, variable airtime charges and in-bound interconnection charges. Analog SMR and paging service revenues primarily consist of recurring fixed access charges. Equipment revenues consist of revenues from sales and rental of handsets. Equipment sales are not fundamental to the Company's businesses. Rather, the Company generally offers handsets at cost, as an incentive for its customers to subscribe to its services.

The Company's operations are capital-intensive and its operating costs are composed of significant fixed costs with relatively low variable costs that are a function of subscriber base. Accordingly, subscriber growth is critical to the improvement in operating margins and results of operations.

Operating expenses include: cost of revenues, selling, general and administrative expenses, depreciation, amortization and corporate and business development expenses. Cost of revenues primarily consists of fixed costs such as interconnection and leased line charges, recurring license and frequency fees, site rental and network maintenance, including overhead, as well as variable costs such as cost of equipment sold, certain interconnection charges, and, in the case of paging services, wages and salaries of operators. Selling, general and administrative expenses primarily consist of salaries, wages, and related benefits for selling, general and administrative personnel, advertising, promotional expenses, bad debt, and other overhead expenses. Depreciation and amortization primarily consist of depreciation recorded for the Company's cellular, SMR and paging networks, as well as amortization of intangibles such as wireless license costs, subscribers lists, and goodwill. Corporate and business development expenses include business acquisition and license application costs which have not been capitalized, and certain head office expenses.

Operating losses

The Company typically invests in development stage telecommunications projects. Such projects usually experience losses and negative cash flow in their initial years of operations because of the substantial capital expenditures required for the construction of their networks, license fees and license acquisition costs, some of which are payable upon issuance of the license or in installments during the construction of the network, and significant marketing and other expenses needed to start the business. Consistent with this experience, the Company has reported net losses for each fiscal year since the commencement of its operations with cumulative net losses and negative operating cash flows during the period from May 21, 1992, the date the business was founded, to December 31, 1997 of $125.1 million and $93.2 million, respectively.

Results of Operations

The following discussions compare the results of operations for the year ended December 31, 1997, to the year ended December 31, 1996, and for the year ended December 31, 1996, to the year ended December 31, 1995. The Company is still in its development stage and the operating results of these periods are not necessarily indicative of operating results in future periods.

Consolidated Results of Operations

	FOR THE YEARS ENDED DECEMBER 31		
	1995	1996	1997
(In thousands of dollars)	$	$	$
Operating revenues	7,032	12,558	**70,717**
Total operating expenses	22,504	35,963	**156,683**
Operating loss	(15,472)	(23,405)	**(85,966)**
Shares of losses of investees	(1)	(203)	**(83)**
Interest expense	(531)	(1,064)	**(21,099)**
Interest Income	974	2,705	**10,437**
Foreign exchange loss	(274)	(199)	**(1,496)**
Non-controlling interests	983	277	**14,137**
Income taxes	—	—	**1,967**
Net loss	(14,321)	(21,889)	**(82,103)**

1997 compared to 1996

Revenues increased to $70.7 million in 1997 from $12.6 million in 1996. The increase resulted from the commercial launch of the Company's cellular operations, which accounted for $43.7 million of the increase. The remaining increase resulted from continued growth in SMR and paging operations as well as increased holdings in several operations.

Total operating expenses increased to $156.7 million from $36.0 million. This increase is in direct relation with the rapid growth in revenues. Included in total operating expenses are costs of revenues, which comprise an increase of $18.5 million in cost of equipment sales—which generate a relatively low margin—and $27.1 million in costs of services, which resulted principally from cellular operations. Depreciation and amortization increased by $14.4 million, which is consistent with the commercial launch of cellular operations and the overall increase in other operations. Selling, general and administrative expenses increased $56.9 million. This increase resulted mainly from the commercial launch of cellular operations. Also included in operating expenses are corporate and business development expenses, which increased from $8.8 million in 1996 to $12.5 million in 1997 as a result of significant additions to the Company's head office management team.

The significant increase of $20 million in interest expense resulted from the issuance of Senior Discount Notes and long-term financing in Romania. The interest income of $10.4 million resulted from the temporary excess of cash generated from the issuance of debt and equity securities. The increase in foreign exchange loss is mainly attributable to Romanian operations, which are subject to exchange risk on working capital.

Non-controlling interest consists of the share of losses of subsidiaries attributed to minority shareholders and is limited to such shareholders' investments in the Company's subsidiaries.

The income tax expense reflects early adoption of income tax accounting policies recommended by the Canadian Institute of Chartered Accountants. The Company had available, as at December 31, 1997, net operating loss carry forwards of approximately $124.5 million, of which $60.5 million have no expiration date. The Company may be limited in its ability to use the carry forwards in any one year due to the uncertainty of generating sufficient taxable income.

Mostly as a result of higher operating loss and financing costs, the net loss increased to $82.1 million, representing $1.41 per share, compared to $21.9 million, or $0.73 per share, in 1996.

1996 compared to 1995

Revenues were $12.6 million compared to $7.0 million in 1995. This increase in revenues resulted from the commercial launch of paging operations in the Netherlands in December 1995 and significant growth achieved by SMR operations in Europe and paging operations in Mexico.

Selling, general and administrative expenses in 1996 were $15.2 million compared to $10.1 million for the same period in 1995. The 1996 expenses included approximately $1.4 million of costs related to the merger of analog SMR operations in the United Kingdom and $2.9 million of pre-operating expenses incurred by cellular ventures in Romania, China and India. Depreciation and amortization increased in 1996 by $1.5 million over 1995 as a result of the increase in SMR operations.

Corporate and business development expenses in 1996 amounted to $8.8 million compared to $4.6 million for 1995, bringing the total operating loss in 1996 to $23.4 million compared to $15.5 million in 1995. Corporate and business development expenses included the write-off of certain deferred business development and license acquisition costs, amounting to $1.7 million in 1996 and $0.3 million in 1995, and Dutch capital duty in the amount of $1.9 million for 1996 as compared to $0.3 million for 1995. Interest income increased by $1.7 million as a result of temporary investment of excess cash obtained through capital contributions, and net loss increased from $14.3 million, or $0.50 per share, in 1995 to $21.9 million, or $0.73 per share, for 1996.

Cellular Operations

	FOR THE YEARS ENDED DECEMBER 31		
	1995	1996	1997
(In thousands of dollars)	$	$	$
Revenues			
Service	—	—	**28,929**
Equipment	—	—	**14,745**
Total	—	—	**43,674**
Cost of revenues			
Service	—	—	**23,790**
Equipment	—	—	**15,818**
Depreciation and amortization	—	—	**10,784**
Selling, general and administrative expenses	413	2,864	**48,942**
Operating loss before unallocated corporate and business development expenses	(413)	(2,864)	**(55,660)**

1997 compared to 1996

The Company's cellular operations in Romania, India and Brazil launched commercial services in April, June and December 1997, respectively. The rapid growth in the subscriber base, mainly in Romania, generated $43.7 million of revenues. The mix of revenues between service and equipment is expected to change as these entities obtain a more significant subscriber base.

The costs related to service revenues reached $23.8 million in 1997 compared to $28.9 million in 1996. This limited margin over the direct costs was expected in the initial months following the commercial launches as a result of excess capacity. As the operating companies secure their current customer base and maintain rapid growth in new customers, it is expected that service revenues will largely exceed their relative direct costs. The costs of equipment slightly exceed the relative revenues, consistent with the Company's policy to sell equipment at cost to attract new customers.

The Company started to amortize its network and license costs at the date of the respective commercial launches. This resulted in a depreciation and amortization expense of $10.8 million in 1997.

Selling, general and administrative expenses amounted to $48.9 million compared to $2.9 million in 1996. This level of expenses was required to support the substantial growth in the subscriber base and consisted of pre-operating expenses, launch costs and operational establishment costs.

1996 compared to 1995

Operating loss for both 1996 and 1995 consists of pre-operating expenses.

SMR Operations

	FOR THE YEARS ENDED DECEMBER 31		
	1995	1996	1997
(In thousands of dollars)	$	$	$
Revenues			
Service	2,534	4,517	**9,270**
Equipment	1,017	1,305	**2,674**
Total	3,551	5,822	**11,944**
Cost of revenues			
Service	2,958	3,713	**4,609**
Equipment	840	550	**1,288**
Depreciation and amortization	1,219	2,076	**5,032**
Selling, general and administrative expenses	6,871	7,382	**9,576**
Operating loss before unallocated corporate and business development expenses	(8,337)	(7,899)	**(8,561)**

1997 compared to 1996

Revenues increased to $11.9 million in 1997 from $5.8 million in 1996. The acquisition of a 33% interest in RegioKom, a network operator in Germany, which was accounted for using the proportionate consolidation method, the acquisition of regional French network operators, and the increased holdings in the Company's French investments contributed approximately $4.5 million of the increase. Existing operations, as of 1996, experienced a 28% increase in revenues, principally from internal growth. The Company's digital SMR projects are still in their pre-operating stage and did not generate revenues for 1997.

Cost of revenues increased by $1.6 million, which resulted in a greater margin on direct variable costs. This stability in costs resulted from economies of scale achieved through the 1997 acquisitions. Depreciation and amortization increased $2.9 million as a result of the higher level of activities and recent acquisitions.

Selling, general and administrative expenses increased $2.2 million. This increase resulted from selling expenses to achieve growth and an increase in pre-operating expenses related to digital SMR projects.

1996 compared to 1995

Revenues increased to $5.8 million in 1996 from $3.6 million in 1995. This increase resulted from significant internal growth. In 1996, revenues exceeded direct costs as the Company experienced significant excess of capacity in 1995 and economies of scale realized on network operating costs following the re-organization of operations in the United Kingdom. Depreciation and amortization expenses increased by $0.9 million. Selling, general and administrative expenses increased by only $0.5 million despite a $1.4 million charge related to the merger of the United Kingdom operations.

Paging Operations

	FOR THE YEARS ENDED DECEMBER 31		
	1995	1996	1997
(In thousands of dollars)	$	$	$
Revenues			
Service	2,194	4,033	**10,494**
Equipment	1,287	2,703	**4,605**
Total	3,481	6,736	**15,099**
Cost of revenues			
Service	1,338	2,292	**4,667**
Equipment	1,080	2,290	**4,223**
Depreciation and amortization	405	1,097	**1,903**
Selling, general and administrative expenses	2,810	4,943	**13,601**
Operating loss before unallocated corporate and business development expenses	(2,152)	(3,886)	**(9,295)**

1997 compared to 1996

Revenues increased significantly to $15.1 million from $6.7 million, as a result of strong subscriber growth and the increase in the Company's ownership interest in paging operations in both Mexico and the Netherlands.

Economies of scale resulting from strong subscriber growth resulted in cost of service revenues improving from 57% of service income in 1996 to 44% in 1997. Gross margin on equipment revenues decreased from 15% in 1996 to 8% in 1997. Depreciation and amortization expenses increased by $0.8 million in 1997, mostly as a result of increases in holdings.

Selling, general and administrative expenses increased $8.7 million, resulting from both the increases in holdings and from exceptionally high promotional expenses in the Netherlands. In December 1997, the Company acquired a controlling interest in its Dutch paging operations and appointed new management.

1996 compared to 1995

The $3.3 million increase in revenues resulted from the commercial launch of operations in the Netherlands in December 1995 and significant growth achieved by operations in Mexico. The costs increased in accordance with the revenues.

Liquidity and Capital Resources

Cash used in operating activities in the amount of $55.2 million for the year ended December 31, 1997, is primarily attributable to operating loss before interest expense on Senior Discount Notes and depreciation and amortization of $49.1 million, offset by the change in working capital.

Cash used in investing activities is primarily attributable to acquisitions of capital assets. Capital assets consist of intangible assets such as telecommunications licenses and tangible assets such as network equipment. From inception to December 31, 1997, the Company invested $378.4 million in capital assets, including $110.2 million in 1996 and $256.4 million in 1997. Capital assets are acquired either directly or through business combinations. As of December 31, 1997, the total cost of capital assets amounted to $422.1 million, including $207.8 million for telecommunications licenses and $163.4 million of network infrastructure.

From inception to December 31, 1997, total cash provided by financing activities amounted to $846.0 million including $236.3 from private sales of equity securities from inception to December 1996, $118.5 million from the IPO in May 1997, $299.9 million from the sale of the 13 1/4% Notes and 10 1/2% Notes and $111.0 million drawn on the EBRD Facility.

Sources of financing

From inception to May 1997, substantially all of the Company's cash requirements were met by the proceeds from private sales of equity securities. Such share issues were made pursuant to subscription agreements entered into from 1994 to 1996 totalling $240 million. The proceeds were primarily used to finance the Company's business combination activities, as well as license and network equipment acquisitions, to provide working capital and to finance operating losses including corporate expenses and expenses incurred in seeking and evaluating new business opportunities.

In May 1997, the Company completed an initial public offering of 13,000,000 Subordinate Voting Shares at a price of C$13.50 each. The proceeds from this issue were $118.5 million, net of the issue expenses amounting to $7.6 million.

In June 1997, the Company issued 13 1/4% Senior Discount Notes with a nominal value of $380.0 million (the "13 1/4% Notes"). In October 1997, the Company issued 10 1/2% Senior Discount Notes with a nominal value of $167.0 million (the "10 1/2% Notes"). Total gross proceeds from these issues were $299.9 million, before issue costs in the amount of $11.8 million. Both the 13 1/4% Notes and the 10 1/2% Notes are unsecured. The 13 1/4% Notes and the 10 1/2% Notes are due June 30, 2007, and November 1, 2007, respectively, with cash interest beginning five years before maturity.

As of December 31, 1997, the Company had total consolidated short-term and long-term loans of approximately $483.9 million, including $315.2 million of accreted value of the 13 1/4% and 10 1/2% Notes. Working capital amounted to $272.5 million including $329.9 million in cash and cash equivalents and $27.0 million due to equipment vendors.

In September 1997, the European Bank for Reconstruction and Development ("EBRD") arranged with other financial institutions a $190 million loan facility (the "EBRD Facility") to Mobifon S.A. ("Mobifon"), the Company's cellular operation in Romania. The EBRD Facility includes a $10.0 million subordinated loan, nine-year senior loans totalling $110.0 million, and a $70.0 million eight-year syndicated senior loan. The EBRD Facility can be drawn upon until December 31, 1999. As of December 31, 1997, MobiFon has drawn $111.0 million of the EBRD Facility to invest in the expansion of its network.

In March 1997, the Company entered into a two-year $35.0 million in revolving bank credit facility, which is undrawn as of December 31, 1997. In addition, certain of the Company's subsidiaries have available short-term credit facilities totalling approximately $20.0 million, of which $3.5 million is drawn as of December 31, 1997.

In Brazil, the Company's cellular operations have obtained underwritten commitments from Banco do Brasil, S.A., to provide up to a maximum of R$940.0 million (approximately $850.0 million) in revolving financing for up to four years. As of December 31, 1997, the Company's share of the amount drawn on this facility was $7.7 million.

The proceeds of this facility together with shareholders' contributions are used to meet initial funding requirements, such as capital expenditures, license fee payments and working capital.

The Company expects to have significant future capital requirements over the next several years, particularly in relation to the construction and initial operation of digital wireless networks and as a result of an anticipated significant expansion of its subscriber base. The Company intends to fund such future capital requirements primarily through externally generated funds. It is expected that over the next several years such funds will come from the sale of equity or debt securities, vendor financing provided by equipment suppliers and project financing from commercial banks and international financial institutions.

Future capital requirements

Cellular operations in Brazil, Romania and India have entered into supply and installation contracts with major equipment suppliers. As of December 31, 1997, the commitments under these contracts amounted to $177.0 million. The Company seeks, where possible, to finance the cash requirements of developing and expanding its operations on a project-by-project basis. Although projects are typically financed by contributions of the Company and its partners in the form of equity and debt, the Company seeks to replace parent company debt financing with stand-alone third-party financing after the initial stages of a project's development. Sources of financing at the operating company level may include vendor financing provided by equipment suppliers, project financing from commercial banks and international financial institutions such as the EBRD, bank lines of credit and the sale of equity or debt securities by the operating company. Cash requirements of the Company's operating companies that are not financed by third-party financing are financed by capital contributions and loans of the Company and the other shareholders of such investees.

The Company's loans and capital contributions to current operations and funding for corporate expenses were approximately $131.0 million for the year ended December 31, 1997. At the corporate level, the Company had a cash balance of approximately $300.0 million as of December 31, 1997 and expects that this cash balance and its corporate credit facility will be sufficient to meet the anticipated capital contributions to its existing operations throughout 1998.

The Company regularly evaluates opportunities for the expansion of its operations or for further investments in wireless telecommunications projects. The future capital requirements related to such investment activities, if any, would be incremental to the anticipated capital contributions to existing operations. The Company has generated negative cash flows since inception and its operations are not expected to provide cash in the immediate future. Consequently, any such investments would require additional financing from externally generated funds.

For example,in Brazil, the Company is a member of the Telet consortium which submitted five bids to obtain a license to provide cellular services in one of the "A" regions of Brazil. If the consortium is successful in securing one of the "A" region licenses, the Company's pro rata share of the license fee (based, for illustrative purposes, upon the consortium's bid for the São Paulo Interior region) would be in excess of R$241.2 million (approximately $216.0 million at current exchange rates), of which 40% would be payable on issuance of the license and 20%, adjusted for inflation, plus 1% interest per month, in each of the subsequent three years. The Company also intends to file a bid for a license to provide PCS services in an area encompassing Buenos Aires, Argentina with a total population of 13.6 million. A minimum bid fee of $100.0 million has been established by the government of Argentina.

Sources of funding for the Company and its investees may include vendor financing, public offerings or private placements of equity and/or debt securities, bank loans and/or capital contributions from new or existing shareholders. There can be no assurance that additional financing will be available to the Company or, if available, that it can be obtained on a timely basis and on terms acceptable to the Company and within the limitations contained in its current financing agreements and any new financing arrangements. Failure to obtain such financing could result in the delay or abandonment of the Company's development and expansion plans and expenditures or the failure to meet license conditions, which could result in a loss of a license. It could impair the Company's ability to meet its debt service requirements and could have a material adverse effect on its business.

TIW is a holding company with no material business operations, sources of income or assets of its own other than the shares of its subsidiaries and operating companies. The Company's cash flow and, consequently, its ability to meet its debt service obligations is dependent on the payment of funds by the subsidiaries to TIW in the form of loans, dividends, advances or otherwise. Under certain of its long-term debt agreements, the Company is subject to certain financial and negative covenants, including restrictions on its ability to incur indebtedness, pay dividends, make certain other payments, create liens, sell assets and engage in mergers. Restrictions also exist on the ability of certain of the Company's subsidiaries and investees to transfer funds in the form of dividends, loans or otherwise to TIW.

Business Risks

The future growth and results of operations of the Company's business will depend significantly on a variety of factors including the successful implementation of the cellular and digital SMR networks, its ability to attract new subscribers, the rate of growth of the subscriber base, the usage and revenue generated from its subscribers, the level of airtime and equipment prices, the churn rate of its subscribers, the range and type of services offered, its ability to control costs relating to constructing, expanding and operating its networks, conditions respecting the network licenses set by various government and regulatory authorities, and the extent of competition in the wireless market. The Company believes that its current capacity and technologies are generally adequate for the current and reasonably foreseeable operation of its cellular and digital SMR networks.

Exchange Rates

The Company presents its financial statements in U.S. dollars. The Company operates in ten different currency jurisdictions and all operations function in local currencies. Virtually all of the Company's revenues and a substantial portion of its operating expenses are in currencies other than its reporting currency. As a result, the Company is exposed to exchange rate risk. Any significant change in the relevant exchange rates, whether of a short-term nature or a steady, long-term change in relative valuation, could have a material effect on the Company's financial statements. In some developing countries, significant devaluations relative to the U.S. dollar have occurred in the past and may occur again in the future. In such circumstances, the Company may experience economic loss with respect to its investments and fluctuations in its results of operations solely as a result of exchange rate fluctuations.

Where possible, the Company adjusts its tariffs for the effects of inflation, one of the factors affecting relative exchange rates. However, the Company may be unable, due to regulatory restrictions and market conditions, to adjust its local tariffs in response to changes in the exchange rate relative to the Company's reporting currency and may therefore be unable to protect itself from currency exchange rate fluctuations.

The Company believes that, to some extent, the broad mix of currencies in which it conducts its businesses and the geographic spread of its operations provide some protection against exchange rate movements and reduce the overall sensitivity of the Company's results of operations to specific exchange rate fluctuations. The Company may elect to enter hedging arrangements from time to time in the future, although it is not currently party to any such transaction and does not have a policy to systematically hedge against foreign currency exchange rate risks. At the operating company level, the Company seeks to reduce its foreign exchange exposure arising from transactions through a policy of matching, where possible, assets and liabilities. In some cases, the Company may borrow in

U.S. dollars because it is either advantageous for the operating companies to incur debt obligations in such currency or because such currency-denominated borrowings are the only funding source available to the operating company at the time. In such circumstances, the Company has decided to accept for the time being the inherent currency risk, principally because of the relatively high cost of buying, or the inability to buy, forward cover in currencies of the countries in which it operates.

Inflation

Inflation has not been a material factor affecting the Company's businesses to date. Although system equipment costs may increase over time as a result of inflation, the Company expects that the cost of subscriber equipment will decrease over time as volume increases, although there can be no assurance that this will be the case. General operating expenses such as salaries, employee benefits and lease costs are, however, subject to normal inflationary or deflationary pressures.

In certain countries, the effects of inflation may become significant to the Company's operations. Where permitted, and subject to competitive pressures, the Company intends to increase its tariffs to account for the effects of inflation. However, in those jurisdictions where tariff rates are regulated or specified in the license, such as in India, the Company, although it intends to charge its subscribers the maximum permitted rates, may not be able to mitigate the impact of inflation on its operations.

Romania and Mexico experienced significant inflation rates in recent years. For example, for the three-year period ended December 31, 1996, the cumulative inflation rates were 108% and 168% for Mexico and Romania, respectively. For accounting purposes, both Mexico and Romania have been treated as highly inflationary economies for each of the quarters of 1997. Consequently, the Company's reporting currency was used to translate these investments for the related periods. This did not have a material adverse effect on the results of operations for these periods. During the third quarter of 1997, the Company made an initial investment in Brazil. This operation has not been treated as highly inflationary for this period.

Impact of the Year 2000 Issue

The Company relies on various computer software programs and operating systems across its entire organization, including applications used in rendering invoices, processing customer orders, providing customer service, and facilitating various engineering and administrative functions. Similarly, certain of the Company's vendors and service providers (including banks relied on by certain operating companies for payment processing) and interconnected telecommunication network operators rely on computer software programs and operating systems that may be critical to the Company's operations.

The Company has begun the process of identifying the software applications and hardware devices critical to its operations, which may be impacted by this issue. The Company purchases most of its software applications from third-party vendors. The Company believes that its methods of addressing the year 2000 issue will include (i) enforcing representations and warranties received from certain vendors at the time of purchase that applications supplied are year 2000–compliant; (ii) acting on information from certain vendors that "quick-fix" modifications are or will be available to correct the problem; and (iii) implementing the Company's plans (unrelated to the year 2000 issue) to update or replace certain systems before the year 2000. Although the Company's investigation of the year 2000 issue is at a preliminary stage, based upon the foregoing, the Company does not currently expect that the costs of addressing these issues in a timely manner will have a material impact on the Company's financial position or results of operations. The Company has begun to ask its vendors and service providers and interconnected telecommunications network operators about their progress in identifying and addressing the year 2000 issue.

There can be no assurance that there will not be a delay in, or increased costs associated with, the implementation of required changes, which could have an adverse effect on future operations.

Forward-Looking Statements

In addition to historical information, this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain forward-looking statements regarding events and financial trends, which may affect the Company's future operating results and financial position. These forward-looking statements are based on current expectations, estimates and projections about the industries in which the Company operates, management's beliefs and assumptions made by management. Word such as "expects," "anticipates," "intends," "plans," "believes," "seeks" and "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("future factors"), which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or anticipated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Future factors include, but are not limited to: technological developments and changes including the impact on capital spending from the deployment of new technologies and the risk that technologies will not be developed according to anticipated schedules or perform according to expectation; the ability to continue to introduce competitive services on a timely, cost-effective basis; foreign governmental and public policy changes; the impact of modifications to or loss of licenses; and the impact of new business opportunities requiring significant up-front investments and continued availability of financing and financial resources in the amounts, at the times and on the terms required to support the Company's future business. In addition, such statements could be affected by general industry and market conditions and growth rates, general international economic conditions including interest rate and exchange rate fluctuations, and other future factors.

MANAGEMENT'S REPORT

The management of the Company is responsible for the preparation and integrity of the financial statements and all other financial information contained in the Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgment. Management considers that the statements present fairly the financial position of the Company, the results of its operations and the changes in its financial position. Financial information contained elsewhere in this Annual Report is consistent with the information contained in the financial statements.

To fulfill its responsibility, management developed and maintains systems of internal accounting controls and establishes policies and procedures designed to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to review by the external auditors during the examination of the financial statements.

The Board of Directors oversees management's performance of its financial reporting and internal control responsibilities. The Board of Directors carries out its responsibility with regard to the consolidated financial statements primarily through its Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work performed. The external auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

March 11, 1998

Bruno Ducharme

Bruno Ducharme

PRESIDENT
AND CHIEF EXECUTIVE OFFICER

Pierre Fitzgibbon

Pierre Fitzgibbon

EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

AUDITORS' REPORT

To the Shareholders of
Telesystem International Wireless Inc.

We have audited the consolidated balance sheets of Telesystem International Wireless Inc. as at December 31, 1997 and 1996 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 1997, and for the period from inception to December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1997, and for the period from inception to December 31, 1997 in accordance with accounting principles generally accepted in Canada.

As discussed in Note 3 to the Consolidated Financial Statements, the Company changed its method of accounting for income taxes in 1997.

Montreal, Canada
March 11, 1998

Ernst & Young

CHARTERED ACCOUNTANTS

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

Assets	DECEMBER 31, 1996 $	DECEMBER 31, 1997 $
Current assets		
Cash and cash equivalents	48,237	**329,854**
Trade debtors	1,936	**23,311**
Inventories	1,805	**8,742**
Amounts due from related parties	3,823	**4,308**
Prepaid expenses and other current assets	9,258	**11,496**
Total current assets	65,059	**377,711**
Investments and advances *(Note 4)*	21,677	**29,399**
Capital assets *(Note 5)*	136,906	**399,219**
Goodwill (net of accumulated amortization of $1,036; 1996—$632)	4,166	**19,398**
Other non-current assets	7,968	**19,734**
	235,776	**845,461**
Liabilities and Shareholders' Equity		
Current liabilities		
Bank loans *(Note 6)*	187	**3,546**
Trade creditors	12,270	**76,399**
Accrued liabilities	3,300	**6,986**
Deferred revenues	1,231	**3,740**
Amounts due to related parties	683	**—**
Current portion of long-term debt *(Note 6)*	1,695	**14,598**
Total current liabilities	19,366	**105,269**
Long-term debt *(Note 6)*	3,959	**465,780**
Future tax liabilities *(Note 10)*	—	**8,830**
Non-controlling interest	15,411	**40,029**
Shareholders' equity		
Share capital *(Note 7)*	240,000	**358,506**
Deficit	(43,036)	**(125,139)**
Cumulative translation adjustment	76	**(7,814)**
Total shareholder's equity	197,040	**225,553**
	235,776	**845,461**

Commitments *(Note 11)*

See accompanying notes.

On behalf of the Board,

Charles Sirois
DIRECTOR

Carmand Normand
DIRECTOR

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(In thousands of U.S. dollars, except per share data)

	FOR THE YEARS ENDED DECEMBER 31			CUMULATIVE FROM INCEPTION TO DECEMBER 31
	1995	1996	1997	1997
	$	$	$	$
Revenues				
Services	4,728	8,550	**48,693**	**64,001**
Equipment	2,304	4,008	**22,024**	**29,437**
	7,032	12,558	**70,717**	**93,438**
Cost of services	4,296	6,005	**33,066**	**44,737**
Cost of equipment	1,920	2,840	**21,329**	**26,966**
Selling, general and administrative expenses	10,094	15,189	**72,119**	**99,938**
Depreciation and amortization	1,624	3,173	**17,719**	**23,207**
Corporate and business development expenses	4,570	8,756	**12,450**	**29,863**
Operating loss	(15,472)	(23,405)	**(85,966)**	**(131,273)**
Share of losses of investees	(1)	(203)	**(83)**	**(366)**
Interest expense	(531)	(1,064)	**(21,099)**	**(22,926)**
Interest income	974	2,705	**10,437**	**14,274**
Foreign exchange loss	(274)	(199)	**(1,496)**	**(2,471)**
Loss before income taxes and non-controlling interest	(15,304)	(22,166)	**(98,207)**	**(142,762)**
Income taxes *(Note 10)*	—	—	**1,967**	**1,967**
Loss before non-controlling interest	(15,304)	(22,166)	**(96,240)**	**(140,795)**
Non-controlling interest	983	277	**14,137**	**15,656**
Net loss	(14,321)	(21,889)	**(82,103)**	**(125,139)**
Deficit, beginning of period	(6,826)	(21,147)	**(43,036)**	**—**
Deficit, end of period	(21,147)	(43,036)	**(125,139)**	**(125,139)**
Net loss per share	(0.50)	(0.73)	**(1.41)**	

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

	For the years ended December 31			Cumulative from inception to December 31
	1995	1996	1997	1997
	$	$	$	$
Operating Activities				
Net loss	(14,321)	(21,889)	**(82,103)**	**(125,139)**
Depreciation and amortization	1,624	3,173	**17,719**	**23,207**
Amortization of deferred financing costs	—	—	**463**	**463**
Accreted interest on long-term debt	—	—	**15,281**	**15,281**
Share of losses of investees	1	203	**83**	**366**
Non-controlling interest	(983)	(277)	**(14,137)**	**(15,656)**
Income taxes	—	—	**(1,967)**	**(1,967)**
Changes in operating assets and liabilities *(Note 11)*	2,929	(5,904)	**9,505**	**10,293**
Cash used in operating activities	(10,750)	(24,694)	**(55,156)**	**(93,152)**
Investing Activities				
Acquisitions of capital assets	(9,732)	(110,163)	**(256,380)**	**(378,418)**
Increase in accounts payable for capital assets	—	—	**27,043**	**27,043**
Investments	(3,268)	(10,893)	**(39,175)**	**(64,598)**
Decrease (increase) in other non-current assets	(1,592)	(6,196)	**1,949**	**(5,927)**
Translation adjustment	217	(736)	**(714)**	**(1,116)**
Cash used in investing activities	(14,375)	(127,988)	**(267,277)**	**(423,016)**
Financing Activities				
Borrowings (repayments) under short-term loan agreements	1, 908	(2,391)	**3,359**	**3,409**
Proceeds from shares issued, net of issue costs	31,314	184,686	**118,506**	**354,777**
Proceeds from shares issued to non-controlling interests	—	2,514	**38,755**	**41,269**
Issuance of Senior Discount Notes	—	—	**299,919**	**299,919**
Financing costs	—	—	**(11,754)**	**(11,754)**
Borrowings of other long-term debt	453	4,062	**201,691**	**159,918**
Repayments of other long-term debt	(388)	(1,110)	**(46,426)**	**(1,516)**
Cash provided by financing activities	33,287	187,761	**604,050**	**846,022**
Increase in cash and cash equivalents for the period	8,162	35,079	**281,617**	**329,854**
Cash and cash equivalents, beginning of period	4,996	13,158	**48,237**	**—**
Cash and cash equivalents, end of period	13,158	48,237	**329,854**	**329,854**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tabular amounts are in thousands of U.S. dollars unless otherwise indicated.)

1 Basis of Presentation and Description of Business

Basis of presentation

The Company was incorporated on September 9, 1996 under the Canada Business Corporations Act under the name 3293505 Canada Inc. and subsequently changed its name to Telesystem International Wireless Inc. On March 11, 1997, the Company issued 100 common shares for cash consideration of $100.

On May 9, 1997, pursuant to a Securities Assignment and Exchange Agreement with all existing shareholders of Telesystem International Wireless Corporation N.V. ("TIWC"), a company subject to common control, the Company issued 48,742,187 Subordinate Voting Shares and 3,257,813 Multiple Voting Shares in exchange for a 100% direct and indirect equity ownership in TIWC. The 100 previously issued and outstanding common shares of the Company were cancelled. This reorganization was accounted for under the continuity of interest method, a method similar to pooling of interest. Accordingly, these consolidated financial statements reflect the results of operations and changes in cash flows as if the Company had always carried on the business of TIWC.

The continuity of the number of shares and related value in these financial statements reflects the attribution of the new capital structure as though it had always existed, including the effect of actual share issuances. Certain classes of shares of TIWC included conversion terms based on the return on funds invested in equity. During 1997, these conversions occurred concurrent with the reorganization described above.

Description of business

The Company, either directly or indirectly, owns telecommunications licenses and operates telecommunications networks in several countries in Europe, Asia and Latin America. The Company currently has cellular operations in Brazil, China, India and Romania, specialized mobile radio ("SMR") operations in France, Germany, Spain and the United Kingdom and paging operations in Mexico and the Netherlands.

The Company typically invests in development stage telecommunications projects. Such projects usually experience losses and negative cash flows in their initial years of operation because of the substantial capital expenditures required for the construction of their networks, license fees and license acquisition costs, some of which are payable upon issuance of the license or in installments during the construction of the network, and significant marketing and other expenses needed to start the business and to seek market penetration. Consistent with this experience, the Company has reported net losses and negative operating cash flows for each fiscal year since inception and expects to have significant future capital requirements over the next several years, particularly in relation to the construction and initial operation of digital cellular and SMR networks. The Company intends to finance such future capital requirements primarily through externally generated funds. It is expected that over the next several years such funds will come from the sale of equity or debt securities, vendor financing provided by equipment suppliers and project financing from commercial banks and international financial agencies.

2 Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. As further described in Note 15, these accounting principles differ in certain respects from those that would have been followed had these financial statements been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") and practices required by the United States Securities and Exchange Commission ("SEC").

The preparation of financial statements by management in accordance with generally accepted accounting principles requires the selection of accounting policies from among existing acceptable alternatives. The summary of significant accounting policies is as follows:

Investments

Investments over which the Company has control are consolidated. Investments that are jointly controlled are reported using the proportionate consolidation method. Under this method, the Company's proportionate share of the assets, liabilities, income and expenses of the joint venture is consolidated in the Company's financial statements. Investments over which the Company has significant influence are accounted for using the equity method. Other investments are stated at cost.

Use of estimates

The preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash equivalents consist of term deposit and highly liquid debt instruments purchased with a maturity of three months or less, and are considered to be cash equivalents for cash flow reporting purposes.

Inventories

Inventories consist of telecommunications equipment held for resale and are stated at the lower of cost, on a first-in first-out basis, and net realizable value.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives using the straight-line method over the following periods:

Buildings	20 years
Network equipment	3 to 10 years
Other equipment	4 to 6 years
Licenses	Up to 20 years
Subscriber lists	5 years
Leasehold improvements	Term of the lease

Goodwill

Business acquisitions are accounted for using the purchase method. Under this method, the excess of the cost of business acquisitions over the fair value of the identifiable net assets acquired is recorded as goodwill and amortized over a period of 20 years. On an ongoing basis, management evaluates the carrying value of goodwill for possible impairment. Such evaluation compares current and anticipated discounted cash flows from related operations to the unamortized goodwill balance over its remaining life and considers operating trends and other relevant factors.

Income taxes

The Company follows the liability method. Future tax balances reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts.

Foreign currency translation

The U.S. dollar is the Company's functional currency. Transactions arising in foreign currencies are translated into U.S. dollars at the exchange rate at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the period-end rates of exchange. The resulting translation gains or losses are recognized in the consolidated statements of loss, except for exchange gains and losses resulting from translation of long-term monetary items, which are deferred and amortized on a straight-line basis over the remaining term of the related item. Results of operations from self-sustaining subsidiaries and joint ventures that report in currencies other than U.S. dollars are translated using the exchange rates at the transaction dates, while assets and liabilities are translated using the current rates at each balance sheet date. The resulting exchange gains or losses are accumulated in the cumulative translation adjustment account included as a component of shareholders' equity.

Results of operations from integrated subsidiaries that report in currencies other than U.S. dollars are translated using the exchange rates at the transaction dates, while monetary assets and liabilities are translated at the period-end rates of exchange and non-monetary assets and liabilities are translated at their historical exchange rate. The resulting exchange gains or losses are charged to income.

The financial statements of foreign entities in highly inflationary economies are re-measured, in all cases, using the U.S. dollar as the functional currency. U.S. dollar transactions are shown at their historical value. Monetary assets and liabilities denominated in local currencies are translated into U.S. dollars at the prevailing period-end exchange rate. All other assets and liabilities are translated at historical exchange rates. Results of operations have been translated using the monthly average exchange rates. Translation differences resulting from the use of these different rates are charged to income.

Revenue recognition

Revenues from airtime, interconnection fees and access to networks, including those billed in advance, are recognized when services are provided. Revenues from connection fees are recognized when the customer is connected to the network. Revenues from sales of equipment are recognized upon shipment.

Financing costs

Share issue expenses are recorded as a reduction of the related proceeds. The debt issue costs are included in other non-current assets and amortized over the estimated life of the debt to which they relate.

Earnings per share

Basic earnings per share is calculated using the weighted average number of voting shares outstanding during the period. Fully diluted loss per share is calculated taking into consideration the effect of the exercise of options and is not presented when it is anti-dilutive.

3 Accounting Change

Effective January 1, 1997, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. This change has been applied retroactively from January 1, 1994, and the Company's financial statements for 1997, 1996, and 1995 have been restated accordingly. The effect of adopting the new recommendations was to increase capital assets by $12,690,000 (1996—nil), increase future tax liabilities by $12,690,000 (1996—nil), and decrease net loss by $1,650,000 for the year ended December 31, 1997 (1996—nil).

Under the new recommendations, the liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

4 Investments and Advances

(a) Investments and advances consist of the following:

	DECEMBER 31, 1996 $	DECEMBER 31, 1997 $
Investments in shares, at equity	253	—
Investments in shares, at cost	622	**973**
Unsecured advances to third parties bearing an average interest rate of 5.5% and maturing in 1999	13,430	**23,430**
Loans and advances to joint ventures	7,372	**4,996**
	21,677	**29,399**

Assets, liabilities, income and expenses related to the Company's interests in proportionately consolidated investees are as follows:

	FOR THE YEARS ENDED DECEMBER 31			CUMULATIVE FROM INCEPTION TO DECEMBER 31
	1995	1996	1997	1997
	$	$	$	$
Revenues	4,942	11,597	**22,856**	**42,056**
Operating loss	(4,083)	(7,468)	**(9,677)**	**(22,668)**
Current assets	3,591	8,797	**22,074**	—
Long-term assets	19,323	48,117	**42,753**	—
Current liabilities	7,514	15,515	**38,111**	—
Long-term debt	974	3,526	**33,322**	—
Cash flows provided by (used in) operating activities	(907)	(4, 951)	**(4,937)**	**(11,681)**
Cash flows provided by (used in) investing activities	(6,947)	(25,200)	**(79,924)**	**(113,139)**
Cash flows provided by (used in) financing activities	201	24,813	**66,805**	**91,857**

(b) Business combinations

In January 1997, the Company acquired a 25% equity interest in RegioKom Verwaltungsgesellschaft mbH ("RegioKom"), a multi-regional SMR network operator, for a cash consideration of $12,500,000. In May 1997, the Company acquired joint control, and increased its equity interest to 33% for a cash consideration of $6,000,000 representing the fair value of identifiable net assets acquired and, from that date, the results of operations and the assets and liabilities of RegioKom have been included in the consolidated financial statements using the proportionate consolidation method.

In May 1997, the Company acquired a controlling interest in three regional network operators located in France for a total cash consideration of approximately $4,500,000 representing the fair value of identifiable net assets acquired.

In June 1997, the Company exercised options to increase its equity interest in Enlaces Radiofónicos S.A., a Mexican paging network operator, from 35% to 49% for cash consideration of $3,700,000. The excess of the purchase price over the fair value of identifiable net assets acquired amounted to $2,038,000 and has been accounted for as goodwill.

In October 1997, the Company acquired control of and increased its equity interest in Régiocom S.A., a French network operator, to 67.8% for a cash consideration of $1,350,000. The excess of the purchase price over the fair value of identifiable net assets acquired amounted to $11,308,000 and has been accounted for as goodwill. This acquisition has been accounted for by the purchase method and the results of operations and the assets and liabilities have been fully consolidated from that date.

In December 1997, the Company increased its equity interest in CallMax B.V., a paging network operator in the Netherlands, from 50% to 60% for a cash consideration of $1,000,000. The excess of the purchase price over the fair value of identifiable net assets acquired amounted to $2,290,000 and has been accounted for as goodwill. This acquisition has been accounted for by the purchase method and the results of operations and the assets and liabilities have been fully consolidated from that date.

In 1995, the Company's affiliate Wavelength Network Services Limited acquired 100% of the shares of Wessex Radio Network Limited and WRN Limited, two companies operating a regional SMR network in the United Kingdom, for a total cash consideration of $717,000, representing the fair value of identifiable net assets acquired. These acquisitions have been accounted for by the purchase method and the results of operations of the acquired businesses have been consolidated from the date of acquisition. Also in 1995, the Company increased its interest in Enlaces Radiofónicos S.A., from 30% to 35%. The excess of the purchase price over the fair value of identifiable net assets acquired amounted to $550,000, and has been accounted for as goodwill.

5 Capital Assets

	COST $	ACCUMULATED DEPRECIATION $	CARRYING VALUE $
December 31, 1996			
Land and buildings	894	29	865
Network equipment	24,475	1,917	22,558
Licenses	108,822	1,336	107,486
Subscriber lists	1,247	168	1,079
Other equipment	1,258	264	994
Equipment under capital leases	4,583	659	3,924
	141,279	4,373	136,906
December 31, 1997			
Land and buildings	**894**	**68**	**826**
Network equipment	**163,357**	**7,925**	**155,432**
Licenses	**207,791**	**7,471**	**200,320**
Subscriber lists	**1,283**	**404**	**879**
Other equipment	**24,071**	**4,352**	**19,719**
Leasehold improvements	**15,272**	**441**	**14,831**
Equipment under capital leases	**9,446**	**2,234**	**7,212**
	422,114	**22,895**	**399,219**

6 Financing Arrangements

(a) Bank loans

On March 7, 1997, the Company entered into a two-year $35,000,000 revolving bank credit facility, which was undrawn as of December 31, 1997. The borrowings bear interest at an annual rate equal to (i) in the case of the U.S. base rate loans, the greater of the bank prime rate and the Federal Fund Rate plus 0.50%, plus an applicable margin varying from 1.50% to 3.25%, or (ii) in the case of Eurodollar loans, the Eurodollar Rate, plus an applicable margin varying from 2.75% to 4.50%. Borrowings under the credit facility are collateralized by the Company's principal bank account and shares of certain affiliates. The Company is subject to certain restrictive covenants, including restriction on the ability to pay dividends.

The Company's investee in Romania has an unsecured $10,000,000 line of credit, which bears interest at LIBOR plus a margin varying from 1.75% to 2.75% and was undrawn as of December 31, 1997.

The Company's investee in the Netherlands has a NLG9,000,000 ($4,450,000) line of credit, which bears interest at the bank rate plus 1.5% and is collateralized by its accounts receivable and a guarantee by the Company. As of December 31, 1997, $3,546,000 was drawn on this facility.

The Company's investee in Germany has a DM8,000,000 ($4,365,000) line of credit, which bears interest at 7.5% per annum and is collateralized by an assignment of its accounts receivable. This facility was undrawn as of December 31, 1997.

(b) Long-term debt

	DECEMBER 31, 1996 $	DECEMBER 31, 1997 $
$13\frac{1}{4}$% Senior Discount Notes	—	**213,332**
$10\frac{1}{2}$% Senior Discount Notes	—	**101,868**
License fees payable	—	**34,597**
Revolving credit facility	—	**7,663**
EBRD facility	—	**111,000**
Obligations under capital leases at interest rates varying from 6.25% to 7.2% with various maturities through 2001	4,142	**7,587**
Others	1,512	**4,331**
	5,654	**480,378**
Less current maturities	1,695	**14,598**
	3,959	**465,780**

13¼% Senior Discount Notes

On June 27, 1997, the Company issued, in the U.S. private market, 13¼% Senior Discount Notes due on June 30, 2007, with a nominal value of $380,000,000 for gross proceeds of $199,861,000, before issue costs in the amount of $7,995,000. The 13¼% Senior Discount Notes, which are unsecured, were sold at a substantial discount from their principal amount and cash interest will not accrue prior to June 30, 2002. Cash interest on the 13¼% Senior Discount Notes is payable semi-annually at a rate of 13¼% per annum on each June 30 and December 31 commencing December 31, 2002.

The Company may redeem, until June 30, 2000, up to 35% of the principal amount at maturity of the 13¼% Senior Discount Notes with the net proceeds of one or more sales by the Company of its capital stock at a price equal to 113.25% of their accreted value, as defined provided that at least $247,000,000 aggregate principal amount at maturity remains outstanding after each such redemption.

On or after June 30, 2002, the Company may redeem the 13¼% Senior Discount Notes, in whole or in part, at any time, at the redemption prices expressed as percentages of principal amount at maturity set forth below, plus accrued and unpaid cash interest, if any, to the redemption date, if redeemed during the 12-month period beginning on June 30 of the years indicated below:

YEAR	REDEMPTION PRICE
2002	106.625%
2003	104.417%
2004	102.208%
2005 and thereafter	100.000%

10½% Senior Discount Notes

On October 29, 1997, the Company issued, in the U.S. private market, 10½% Senior Discount Notes due on November 1, 2007, with a nominal value of $167,000,000 for gross proceeds of $100,058,000, before issue costs in the amount of $3,758,000. The 10½% Senior Discount Notes, which are unsecured, were sold at a substantial discount from their principal amount and cash interest will not accrue prior to May 1, 2003. Cash interest on the 10½% Senior Discount Notes is payable semi-annually at a rate of 10½% per annum on each May 1 and November 1 commencing May 1, 2003.

The Company may redeem, until November 1, 2000, up to 35% of the principal amount at maturity of the 10½% Senior Discount Notes with the net proceeds of one or more sales by the Company of its capital stock at a price equal to 110.50% of their accreted value, as defined provided that at least $108,500,000 aggregate principal amount at maturity remains outstanding after each such redemption.

On or after November 1, 2002, the Company may redeem the 10½% Senior Discount Notes, in whole or in part, at any time, at the redemption prices expressed as percentages of principal amount at maturity set forth below, plus accrued and unpaid cash interest, if any, to the redemption date, if redeemed during the 12-month period beginning on November 1 of the years indicated below:

YEAR	REDEMPTION PRICE
2002	105.25%
2003	103.50%
2004	101.75%
2005 and thereafter	100.00%

License fees payable

The Company's portion of the license fees payable to the Brazilian Ministry of Communications amounts to R$38,600,000 ($34,597,000), is bearing interest at 1% per month plus an adjustment for inflation and is repayable in three equal annual payments starting July 2, 1998.

Revolving credit facility

The Company's investee, in Brazil, has an available revolving credit facility in the amount of R$940,000,000 ($850,000,000) for a period ending July 2001 and is unsecured. As of December 31, 1997, R$45,000,000 ($40,325,000) bearing interest at 103% of the bank prime rate (December 31, 1997—29%) was drawn on this facility.

EBRD facility

In September 1997, the European Bank for Reconstruction and Development ("EBRD") arranged and partially financed a $190,000,000 loan facility (the "EBRD Facility") to MobiFon S.A., the Company's Romanian subsidiary. The EBRD Facility includes a $10,000,000 subordinated loan bearing interest at 15%, nine-year senior loans totalling $110,000,000 and a $70,000,000 eight-year syndicated senior loan. The $64,167,000 currently outstanding on the nine-year senior loans bears interest at LIBOR plus 3.25%, except for an amount of $37,917,000 which bears interest at 9.75% until 2002. The eight-year syndicated senior loan bears interest at LIBOR plus 3.05%. MobiFon S.A. entered into an interest rate swap agreement, pursuant to which the $40,833,000 currently outstanding on the eight-year syndicated senior loan bears an effective interest rate of 9.35% until 2002. The EBRD Facility is collateralized by the Company's and certain of the minority shareholders' shares in MobiFon S.A., and can be drawn upon until December 1999.

Covenants

Under the long-term debt agreements discussed above, the Company is committed to respecting certain financial and negative covenants including limitations on the ability to incur indebtedness, pay dividends, make certain other payments, create liens, sell assets and engage in mergers. Limitations also exist with respect to the ability of certain subsidiaries or investees to transfer funds in the form of dividends, loans or otherwise to the parent company.

Minimum annual principal repayments of all long-term debt during the next five years as at December 31, 1997, are as follows:

YEAR	$
1998	14,598
1999	14,684
2000	14,363
2001	17,369
2002	15,952
Thereafter	403,412

As at December 31, 1997, future minimum lease payments relating to obligations under capital leases amount to $8,398,000, including interest of $811,000.

7 Share Capital

Authorized

Unlimited number of Subordinate Voting Shares. Each share carries the right to cast one vote.

Unlimited number of Multiple Voting shares. Each share carries the right to cast 8.0874 votes and is convertible, at the holder's option, into one Subordinate Voting Share. Conversion could also occur under other limited circumstances.

Unlimited number of non-voting Preferred Shares, issuable in series with rights and conditions as may be determined by the Board of Directors.

In the event of certain issuance of Voting Shares (other than Multiple or Subordinate issued upon the conversion of Multiple), the Company shall issue to holders of Multiple Voting Shares rights to subscribe for a number of Multiple Voting Shares, which carry voting rights, to maintain the percentage of voting rights prior to the issuances.

Issued and paid

The issuance of shares for each of the years presented up to December 31, 1996, reflects the reorganization described in Note 1.

	MULTIPLE VOTING SHARES		SUBORDINATE VOTING SHARES	
	NUMBER	AMOUNT $	NUMBER	AMOUNT $
Balance January 1, 1992	—	—	—	—
Issuance of shares for cash	—	—	103,837	21
Balance December 31, 1992	—	—	103,837	21
Issuance of shares for cash	—	—	—	—
Balance December 31, 1993	—	—	103,837	21
Issuance of shares for cash	100	—	28,402,216	23,977
Balance December 31, 1994	100	—	28,506,053	23,998
Issuance of shares for cash	—	—	168,296	31,314
Balance December 31, 1995	100	—	28,674,349	55,312
Issuance of shares for cash	—	—	15,181,118	184,688
Balance December 31, 1996	100	—	43,855,467	240,000
Issuance of shares upon conversion	3,257,713	—	4,886,720	—
Issuance of shares for cash	—	—	13,000,000	118,506
Balance December 31, 1997	**3,257,813**	**—**	**61,742,187**	**358,506**

In May 1997, the Company issued 13,000,000 Subordinate Voting Shares at a price of C$13.50 per share for aggregate net proceeds of $118,506,000. A total of 3,257,713 Multiple Voting Shares and 4,886,720 Subordinate Voting Shares were issued upon conversion of certain shares. These shares were issued for a nominal value in 1994 and were convertible based on the return on funds invested in equity (see Note 1).

Stock option plans for senior executives, key employees and directors

On April 30, 1997, the Company established an Employee Stock Option Plan (the "Plan"). All of the options granted under the Plan to acquire Subordinate Voting Shares may be exercised within a maximum period of seven years following the date of grant. Options may be exercised as follows: (i) on or after the second anniversary of the date of grant as to 25% of the optioned shares or any part thereof; (ii) on or after the third anniversary of the date of grant as to an additional 50% of the optioned shares or any part thereof; and (iii) on or after the fourth anniversary of the date of grant as to the remaining 25% of the optioned shares or any part thereof. All options are granted at the estimated market price of the Subordinate Voting Shares on the date of grant and are exercisable over a maximum period of seven years. The maximum number of Subordinate Voting Shares that are issuable under the Plan will not exceed 6,000,000 Subordinate Voting Shares. The maximum number of Subordinate Voting Shares that may be optioned in favour of any individual will not exceed 2% of the issued and outstanding shares from time to time.

On April 30, 1997, the Company also established a stock option plan for directors of the Company (the "Directors Stock Option Plan"). Directors who are eligible to receive options to purchase Subordinate Voting Shares under the Directors Stock Option Plan are members of the Board of Directors of the Company who are not officers or employees of the Company or of Telesystem Ltd. and its affiliates. The provisions of the Directors Stock Option Plan are identical in all material respects to the provisions of the Plan. The maximum number of Subordinate Voting Shares that are issuable under the Directors Stock Option Plan will not exceed 400,000 Subordinate Voting Shares (representing together with the number of Subordinate Voting Shares issuable under the Plan approximately 10% of the issued and outstanding equity shares). The maximum number of Subordinate Voting Shares that may be optioned in favour of any individual will not exceed 2% of the issued and outstanding shares from time to time.

The following is a summary of all options outstanding:

DATE OF GRANT	NUMBER OF OPTIONS	EXERCISE PRICE PER SHARE	AGGREGATE
		C$	C$
Outstanding, December 31, 1996	—	—	—
Granted in 1997	622,932	13.50 to 22.75	11,151
Outstanding, December 31, 1997	622,932		11,151

In addition, a total of 395,805 options to purchase Subordinate Voting Shares under the Plan have been reserved for grant on certain dates throughout 1998. Those options will be granted at the estimated market price of the Subordinate Voting Shares on such dates.

Employee Incentive Stock Plan

Pursuant to the Employee Incentive Stock Plan, 814,453 Subordinate Voting Shares were transferred in August 1994 to a trust company for the benefit of the participants. Distribution of the shares and vesting of the entitlement varies from one to four years. If the employment is terminated before the end of the vesting period, the shares will be repurchased for a nominal value and resold on the public market with the proceeds being paid to the Company.

8 Related Party Transactions

On August 10, 1994, the Company entered into an agreement whereby Telesystem International Wireless Services Inc. ("TIWS") provided certain management services to the Company. On May 9, 1997, TIWS became a wholly-owned subsidiary of the Company. This acquisition has been accounted for using the purchase method. Prior to such date, TIWS was controlled by a shareholder of the Company. Fees incurred by the Company under this agreement, prior to May 9, 1997, have been accounted for as follows:

	FOR THE YEARS ENDED DECEMBER 31			CUMULATIVE FROM INCEPTION TO DECEMBER 31
	1995	1996	1997	1997
	$	$	$	$
License acquisition costs capitalized	2,203	5,514	**346**	**8,300**
Corporate and business development expenses	3,858	5,470	**3,014**	**15,829**

9 Segmented Information

Management has determined that the Company operates in one industry segment: the provision of wireless telecommunications services. The analyses of Company revenues, operating (loss) profit and total assets by geographic segment are as follows:

	REVENUES	OPERATING (LOSS) PROFIT	TOTAL ASSETS
	$	$	$
For the year 1995			
Europe	3,684	(10,119)	27,648
Latin America	3,348	(367)	7,382
Asia	—	(416)	3,743
Corporate	—	(4,570)	11,970
	7,032	(15,472)	50,743
For the year 1996			
Europe	7,237	(11,608)	130,581
Latin America	5,321	45	7,566
Asia	—	(3,086)	45,860
Corporate	—	(8,756)	51,769
	12,558	(23,405)	235,776
For the year 1997			
Europe	**58,830**	**(66,616)**	**338,853**
Latin America	**11,157**	**55**	**117,797**
Asia	**730**	**(6,955)**	**34,612**
Corporate	**—**	**(12,450)**	**354,199**
	70,717	**(85,966)**	**845,461**

10 Income Taxes

Effective January 1, 1997, the Company changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by the Canadian Institute of Chartered Accountants' Section 3465 Accounting for Income Taxes (see Note 3, "Accounting Change").

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets as of December 31, 1997, are as follows:

	DECEMBER 31, 1996 $	DECEMBER 31, 1997 $
Future tax liabilities		
Book value of assets in excess of their tax value	—	**12,373**
Total future tax liabilities	—	**12,373**
Future tax assets		
Loss carry forwards from foreign investees	15,525	**46,665**
Tax value of assets in excess of their carrying value	1,050	**1,255**
Total future tax assets	16,575	**47,920**
Valuation allowance for future tax assets	(16,575)	**(44,377)**
Net future tax assets	—	**3,543**
Net future tax liabilities	—	**8,830**

As at December 31, 1997, the Company had net operating loss carry forwards, which are available to reduce taxable income in future years, as follows:

	$
Losses expiring in:	
1998	200
1999	375
2000	51,515
2001	1,450
2002	6,170
2005	485
2006	3,755
With no expiration	60,515
	124,465

Significant components of the provision for income taxes are as follows:

	FOR THE YEARS ENDED DECEMBER 31			CUMULATIVE FROM INCEPTION TO DECEMBER 31
	1995 $	1996 $	1997 $	1997 $
Current tax expense	—	—	—	—
Future income tax benefit relating to temporary differences	—	—	**952**	**952**
Future income tax benefit resulting from recognition of loss carry forwards	—	—	**1,015**	**1,015**
Income taxes	—	—	**1,967**	**1,967**

The reconciliation of income tax computed at the statutory Canadian tax rates to income tax expense is:

	FOR THE YEARS ENDED DECEMBER 31		
	1995	1996	1997
	$	$	$
Tax at combined federal and provincial rates	(5,815)	(8,425)	**(37,200)**
Differences in effective rate attributable to income taxes of other countries	230	1,065	**3,600**
Valuation allowance	5,585	7,360	**31,633**
	—	—	**(1,967)**

11 Changes in Operating Assets and Liabilities

	FOR THE YEARS ENDED DECEMBER 31			CUMULATIVE FROM INCEPTION TO DECEMBER 31
	1995	1996	1997	1997
	$	$	$	$
Changes in operating assets and liabilities				
Trade debtors	(561)	(1,468)	**(18,745)**	**(20,904)**
Amounts due from/to related parties	(2,820)	(3,389)	**927**	**(1,478)**
Inventories	(703)	(866)	**(6,138)**	**(7,954)**
Prepaid expenses and other current assets	439	(7,067)	**(1,276)**	**(7,931)**
Trade creditors and accrued liabilities	6,229	6,378	**32,957**	**45,924**
Deferred revenues	345	508	**1,780**	**2,636**
	2,929	(5,904)	**9,505**	**10,293**

12 Commitments

The future minimum lease payments for the next 5 years, under operating leases, are as follows:

YEAR	$
1998	7,280
1999	5,960
2000	3,785
2001	3,225
2002	2,265
Total	22,515

Rental expenses for 1997 amounted to $4,212,000 ($518,000 and $365,000 for the years ended December 31, 1996 and 1995 respectively).

The conditions to the various license agreements require the Company's investees to substantially meet the deployment plan set out in their license applications and provide a reasonable level of services in their relative coverage areas. In addition, based on the deployment plans of the Company's investees and their license fee structures, the Company estimates its pro rata share of licensing fees for the next five years to be approximately $9,500,000 per year.

The Company has defined benefit pension plans in certain countries. The related obligations and plan assets are not significant.

As at December 31, 1997, the Company's investees had supply and installation contracts for a maximum of $177,000,000 over 5 years. The Company's pro rata share of these commitments amounted to $65,500,000.

13 Financial Instruments

Fair value

The carrying amounts of cash and cash equivalents, trade debtors, amounts due from/to related parties and trade creditors and accrued liabilities approximate their fair values due to the short-term maturity of these instruments.

The carrying amounts of bank loans and long-term debt other than the Senior Discount Notes approximate their fair values since their interest rates fluctuate with market interest rates or are similar to interest rates currently available to the Company.

The fair value and the effective interest rate of the Senior Discount Notes as at December 31, 1997, were approximately $339,760,000 and 11.48% respectively, as quoted on the over-the-counter market.

The fair value of share investments stated at cost is not determinable as the shares are not publicly traded.

The fair value of the interest rate swap contract as at December 31, 1997 approximates book value given the contract was entered into in December 1997.

Credit risk

The concentration of credit risk with respect to trade receivables is limited due to the composition of the customer base, which includes a large number of individuals and businesses. The credit risk related to cash and cash equivalents is limited because the Company has a policy of only dealing with large, creditworthy financial institutions.

14 Subsequent Events

In January 1998, the Company and the minority shareholder in Régiocom S.A. entered into an agreement pursuant to which the Company has the option, and may be required, to increase its equity interest to 100% on or before December 31, 1998, for approximately $1.6 million.

In February 1998, the Company acquired 100% of the issued and outstanding shares of National Band Three Limited, an SMR operator in the United Kingdom, for a cash consideration of approximately $82 million.

In February 1998, the Company's affiliate RegioKom acquired 100% of the issued and outstanding shares of Terrafon Bündelfunk GmbH & Co. KG, an SMR operator in Germany, for a cash consideration of approximately $8 million. As part of the transaction, the Company contributed additional capital to RegioKom in the amount of $31 million, which resulted in an equity interest increase from 33% to 62%.

In February 1998, the Company exercised an option to increase its equity interest in FleetCom Ltd, an SMR operator in the United Kingdom, from 50% to 60% for a cash consideration of $900,000. The Company also entered into an agreement whereby the Company has the option, and may be required, to increase its equity interest to 100% on or before February 12, 2003, for approximately $3.6 million.

In February 1998, the Company issued a prospectus, pursuant to which its Series B $13\frac{1}{4}\%$ Senior Discount Notes and its Series C $10\frac{1}{2}\%$ Senior Discount Notes were offered in exchange for its currently outstanding $13\frac{1}{4}\%$ Senior Discount Notes due 2007 and $10\frac{1}{2}\%$ Senior Discount Notes due 2007 respectively. The Company's Series B $13\frac{1}{4}\%$ and Series C $10\frac{1}{2}\%$ Senior Discount Notes, which have been registered under the U.S. Securities Act of 1993, have the same terms and conditions as the $13\frac{1}{4}\%$ and $10\frac{1}{2}\%$ Senior Discount Notes.

In February 1998, the Company entered into an agreement to acquire, for approximately $13 million, the French SMR operations of France Télécom.

15 United States Generally Accepted Accounting Principles

No material adjustments to the Company's financial statements would be required to conform with U.S. GAAP except for the following:

Reconciliation of consolidated statements of loss

	FOR THE YEARS ENDED DECEMBER 31			CUMULATIVE FROM INCEPTION TO DECEMBER 31
	1995	1996	1997	1997
	$	$	$	$
Net loss under Canadian GAAP	(14,321)	(21,889)	**(82,103)**	**(125,139)**
(a) Expense related to convertible shares	—	—	**(78,655)**	**(78,655)**
Net loss under U.S. GAAP	(14,321)	(21,889)	**(160,758)**	**(203,794)**
Basic and diluted loss per share under U.S. GAAP (in dollars)	(0.50)	(0.73)	**(2.75)**	

Differences in reported amounts on consolidated balance sheets

	AS AT DECEMBER 31	
	1996	1997
	$	$
Additional paid-in capital	—	**78,655**
Deficit	(43,036)	**(203,794)**

(a) Convertible shares

Under U.S. GAAP, certain convertible shares issued to non-employees are recorded by analogy to APB 25, "Accounting for Stock Issued to Employees." Under these rules, shares that are convertible based on a conversion factor, which depends upon the level of the annual internal rate of return on funds invested in equity, require that the excess, if any, of the estimated fair market value of the shares over their carrying value be recorded as an expense over the vesting period, when it becomes probable that they will be converted.

In 1997, an amount of $78,655,000 has been expensed for U.S. GAAP purposes, with a corresponding increase in additional paid-in capital. This transaction is a non-cash transaction with no effect on the cash flow and total equity of the Company.

(b) Stock-based compensation

Under U.S. GAAP, FAS 123, "Accounting for Stock-Based Compensation," was issued by the FASB in 1996. The Company has elected to continue to measure its stock-based awards using the method prescribed by APB 25. Under this method, any compensation expense relating to the Company's stock options plans would have to be reflected over the vesting periods of these options. Options granted under variable plans require that the excess, if any, of the estimated fair market value of the shares over the exercise price of the option be recorded as compensation expense over the vesting period, whereas no such compensation is recorded under Canadian GAAP. As indicated in Note 7, the Company had reserved, as of December 31, 1997, for the benefit of certain individuals, options to purchase Subordinate Voting Shares at certain dates throughout 1998. The application of APB 25 did not result in the recognition of compensation expense. The issuance of FAS 123 does not have any effect on the Company's financial position or results of operations but requires the Company to provide expanded disclosure regarding its stock-based employee compensation plans.

(c) Supplementary information for U.S. GAAP purposes on stock-based compensation

Pro forma information regarding net income and earnings per share is required by FAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997: risk-free interest rates of 6%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 30%; and a weighted-average expected life of the options to 5.0 years.

There were no options outstanding prior to May 9, 1997.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net loss under U.S. GAAP would be increased by $417,000 for the year ended December 31, 1997. Net loss per share would not be significantly affected.

(d) Investments in joint ventures

As indicated in Note 2, the Company accounts for investments in minority-owned incorporated joint ventures using the proportionate consolidation method. Under U.S. GAAP, such investments should be accounted for using the equity method. If the equity method were used to account for investments in minority-owned incorporated joint ventures, substantially all of the Company's assets, liabilities, revenues and expenses would be reclassified, but such reclassification would have no impact on the losses and shareholders' equity for each period. Summarized balance sheet, income statement and cash flow information resulting from operating, financing and investing activities relating to the Company's pro-rata interest in joint ventures is presented in Note 4.

(e) Accounting change

In 1997, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share." Under the new requirements for calculating earnings per share, the dilutive effect of stock options is excluded from basic earnings per share but included in the computation of diluted earnings per share. The new standard resulted in a decrease in basic loss per share over primary loss per share of $0.38 per share for the year ended December 31, 1997, and had no effect on prior year's figures. During the year, the Company issued options to purchase Subordinate Voting Shares that were not included in the computation of diluted loss per share because the effect would be antidilutive.

(f) Recent developments

The Financial Accounting Standards Board has issued FAS 129, "Disclosure of Information About Capital Structure," FAS 130, "Comprehensive Income," FAS 131, "Disclosures About Segments of an Enterprise and Related Information" and FAS 132, "Employers' Disclosures About Pensions and Other Post Retirement Benefits." These statements are effective for the Company's December 31, 1998 year-end. The Company has not determined the impact of these standards.

(g) Supplementary information for U.S. GAAP purposes on the statement of cash flows

	YEARS ENDED DECEMBER 31		
	1995	1996	1997
	$	$	$
Interest paid	400	1,101	**2,342**
Income tax paid	—	—	—

Under U.S. GAAP, the translation adjustment line item included in investing activities would be presented as a separate part of the reconciliation of the change in cash and cash equivalents.

FIVE-YEAR REVIEW

(In thousands of U.S. dollars, except per share data)

	1993 $	1994 $	1995 $	1996 $	1997 $
Revenues	110	3,021	7,032	12,558	**70,717**
Operating loss	461	5,937	15,472	23,405	**85,966**
Net loss	501	6,293	14,321	21,889	**82,103**
Net loss per share	4.82	2.31	0.50	0.73	**1.41**
Total assets	2,684	26,510	50,743	235,776	**845,461**
Long-term debt (net of current maturities)	852	1,930	1,509	3,959	**465,780**
Shareholders' equity	(512)	17,460	35,323	197,040	**225,553**

QUARTERLY FINANCIAL DATA

(In thousands of U.S. dollars, except per share data)

	FIRST $	SECOND $	THIRD $	FOURTH $	YEAR $
1997					
Revenues	3,919	11,156	19,641	36,001	**70,717**
Operating loss	10,331	20,497	17,127	38,011	**85,966**
Net loss	8,420	14,742	17,572	41,369	**82,103**
Net loss per share	0.19	0.25	0.27	0.64	**1.41**
1996					
Revenues	2,366	2,991	2,990	4,211	12,558
Operating loss	7,928	5,369	3,829	6,279	23,405
Net loss	7,561	4,948	3,424	5,956	21,889
Net loss per share	0.21	0.13	0.12	0.18	0.73

Share Market Price

	FINANCIAL YEAR 1997			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
High	—	16.40	26.00	29.00
Low	—	15.30	15.60	19.50
Close	—	16.00	26.00	20.50

Credit Ratings

	BALANCE	MOODY'S	S & P
13 1/4% Senior Discount Notes	$213M	CAA1	B-
10 1/2% Senior Discount Notes	$102M	CAA1	B-

	DECEMBER 31, 1997
Number of Multiple Voting Shares	3,257,813
Number of Outstanding Subordinate Voting Shares	61,742,187
Stock Listing	Montreal Exchange, Toronto Stock Exchange
Symbol	TIW

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Board of Directors

Charles Sirois[3]	Chairman of the Board
Jean-Marc Fortier	Secretary and Director
Jean-Jacques Bertrand[2]	Director
Richard J. Brekka[3]	Director
Jacques A. Drouin[2]	Director
George A. Fierheller[1]	Director
Antoine Garrigues[1]	Director
David J. Kassie	Director
Pierre MacDonald[2,3]	Director
Carmand Normand[1]	Director
Donna Parr[2]	Director
Edward S. (Ted) Rogers	Director
Claude Séguin	Director

[1] Member of the Audit Committee

[2] Member of the Human Resources and Compensation Committee

[3] Member of the Nominating and Corporate Governance Committee

Senior Management

Charles Sirois	Chairman of the Board
Bruno Ducharme	President and Chief Executive Officer
Michael Asch	Vice-President, Sales, Marketing and Customer Services
Paul D. Beattie	Vice-President, Paging Services
Mario Bertrand	President, Europe
Louis Cousineau	Executive Vice-President, Organizational Development
François Dufresne	Vice-President, Corporate Development
Pierre Fitzgibbon	Executive Vice-President and Chief Financial Officer
André Gauthier	Vice-President and Controller
Kiet Lam	President, Indochina
François Lavery	Vice-President, Technology
Yves Marois	Executive Vice-President, Corporate Development and President, SMR and Paging Services
Robert J. Ménard	Vice-President, Project Development and Implementation
Ashok Panchmatia	Vice-President, South Asia
René Patoine	Executive Vice-President, Operations
Pierre Toth	Vice-President, Corporate Planning and Treasurer
Gerard M. Vazquez	Vice-President, Latin America
Margriet Zwarts	Vice-President, Legal Affairs

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Canada
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Transfer Agent and Registrar

The transfer agent and registrar for the Multiple Voting Shares and Subordinate Voting Shares is Montreal Trust Company of Canada, at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal.

Trustee

The trustee for the 13 1/4% and 10 1/2% Senior Discount Notes is Bank of Nova Scotia Trust Company of New York, at its principal office in New York.

Stock Exchange Listings

The Company is listed on the Montreal Exchange and the Toronto Stock Exchange under the symbol TIW for the Subordinate Voting Shares.

Securities Commission Filings

In addition to its annual report, the Corporation files a management proxy circular with the Canadian securities commissions. It also files a Form 20-F with the U.S. Securities and Exchange Commission and with the Canadian securities commissions.

Pour obtenir un exemplaire de la version française du rapport annuel, veuillez écrire au service des Relations avec les investisseurs.

Annual Meeting

THE ANNUAL MEETING OF TELESYSTEM INTERNATIONAL WIRELESS INC. WILL BE HELD AT 2 P.M. ON TUESDAY, MAY 12, 1998, AT THE RITZ-CARLTON, OVALE ROOM, 1228 SHERBROOKE STREET WEST, MONTREAL, QUEBEC. SHAREHOLDERS ARE INVITED TO ATTEND THIS MEETING.

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